

# FINANCIAL TIMES

Ukraine

Rich rewards await  
rugged entrepreneurs

Page 3

Zimbabwe

Murumba's budget  
balancing act

Page 7

Laser welding

Deep CO<sub>2</sub> beam  
creates 'dry tunnel'

Technology, Page 19

Today's survey

Investment  
into the UK

Separate section

World Business Newspaper http://www.FT.com

THURSDAY JULY 24 1997

## Burma and Laos become latest Asean members

Burma and Laos have become members of the Association of South-East Asian Nations amid controversy over the group's attempts to broker a settlement in Cambodia. Cambodia should have joined Asean with the two other entrants, but its invitation was frozen after the recent coup. Page 12; Editorial comment, Page 11; Asean role in Cambodia, Page 4

**Ulster talks setback** The UK government's proposals for decommissioning paramilitary arms in Northern Ireland have been rejected by Ulster's three main pro-British unionist parties in a vote at multi-party talks. The rejection jeopardises planned negotiations in September with Sinn Féin, the political wing of the IRA. Page 8

**Simitsis threatens EU expansion veto**

Greek prime minister Costas Simitsis says Greece has not ruled out vetoing European Union membership for countries in central and eastern Europe if Cyprus is excluded from the next wave of enlargement. Mr Simitsis, left, added that Greece would still take maintain a firm line in its disputes with Turkey, notably over Cyprus and control of the Aegean Sea, while seeking to build on this month's Madrid agreement to avoid the use of force. Page 2; Thaw in Aegean, Page 10

**Israeli budget cuts** Israel's government has agreed a Shk800m (\$227m) cut in this year's budget, in spite of opposition from defence minister Yitzhak Mordechai, and four other ministers. The cut of 1.1 per cent hits all but three of the 18 ministries, and is intended to reduce the budget deficit to 2.5 per cent of GDP. Page 7

**Baht hits new low** The Thai baht plunged to new historic low and other south-east Asian currencies also weakened ahead of an Asian central bankers' meeting. Page 4

**Students face fee rise** UK college students - whose education is currently free - face annual tuition fees of around £1,000 from next year under proposals which, added to loans for living costs, would push the cost of a three-year degree course to around £8,000 (£13,360). Page 8

**New Chinook crash probe** The cause of the 1994 Chinook helicopter crash in Scotland, which killed 25 of the UK's top intelligence experts, has been called into question. The new parliament's defence committee is to ask for more explanation of the air force verdict of pilot error. Page 8

**Reuters profits dip** Plans by Reuters, the UK media and information group, to buy back up to £200m (\$334m) of shares were overshadowed by a dip in half-year 3 per cent fall in pre-tax profits to £238m on sales 2 per cent lower at £1.4bn. Page 13; Lex, Page 12

**Japan seeks new tourists** Japan hopes to double its number of overseas visitors to 7m by 2005. Although tourism in the East Asia-Pacific region has one of the world's fastest growth rates tourism to Japan is depressed, said the government. Page 4

**UK economy booms** The UK's economy is fast reaching its capacity limits, according to new figures which show that retail spending has hit its highest level since the end of 1988. The figures helped push up the pound to an eight-year high against the D-Mark. Page 12 and Lex; German banking, Page 13

**Lilly shares rise on new drug** Shares in Eli Lilly, the US pharmaceuticals company, have risen by 2 per cent despite the announcement of a second quarter loss. Investors welcomed news that regulators may soon approve for a new drug to treat osteoporosis, and strong sales growth for other newly-launched drugs. Page 13

**Prehistoric catastrophe** The Earth was struck by two massive asteroids or comets in quick succession 35 million years ago, according to new research by Canadian scientists. They believe the double blow may have altered the climate and led to the biggest mass extinction of life since the death of the dinosaurs.

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**STOCK MARKET INDICES**

New York S&P 500	1,028.86	(+0.31)
Dow Jones Ind. Av.	10,700.17	(+0.31)
NASDAQ Composite	1,570.17	(+0.31)
Europe and Far East		
CAC40	3,003.33	(+0.24)
FTSE 100	4,000.00	(+0.24)
Nikkei	20,130.81	(+0.24)

**US LIBOR RATES**

Federal Funds	5.5%
3-month Treas. Bill	5.15%
Long Bond	10.0%
Yield	5.40%

**OTHER RATES**

UK 3-mo interbank	6.31%	(7%)
UK 10 yr Gilt	10.0%	(10.0%)
France 10 yr OAT	10.0%	(10.0%)
Germany 10 yr Bund	10.0%	(10.0%)
Japan 10 yr JGB	10.0%	(10.0%)

**NORTH SEA OIL (Argente)**

Brunt Field	\$18.00	(18.44)
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**STERLING**

DM	3.0720	(0.0304)
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**CONTENTS**

Business	2-3	Finance	11	International	14-15	Managed Funds	22-23
European News	2-3	Leader Page	11	Int. Cap. Mkt.	20	Money Markets	21
International News	7	Letters	10	Markets	21	Recent Issues	22
Pacific News	4	Observer	11	Commodities	22	Share Information	23-24
Technology	19	Technology	19	FTSE Asia	23	Wall Street	25-26
World Trade News	5	Analysis	9	FTSE-A Mid Index	32	Bourses	25-26
UK News	6	Commentary	22	Gold Markets	22	Investment	26-27
Weather	12	Competition & Finance	18	Int. Bond Service	20		
Lex	12	UK	18				

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## Crisis ends as US company satisfies Brussels' competition fears

# Boeing gets merger approval

By Emma Tucker in Brussels, Michael Skapinker in London and Bruce Clark in Washington

The European Commission yesterday finally approved plans for a merger between Boeing and McDonnell Douglas, after eleven months of negotiations by Boeing satisfied Brussels' concerns about the effect of the deal on competition in the European market.

Announcing the decision - which ended five months of argument - Mr Karel Van Miert, the competition commissioner, called for closer EU-US co-operation on competition policy to avoid repetition of a crisis which took the two continents to the brink of a trade war.

An ebullient Mr Van Miert described the deal as "a vital battle" in terms of competition policy and said the conditions he had been striving for had largely been agreed.

These were a commitment by Boeing to make available licences and patents from McDonnell Douglas's military research programmes to rival firms; agreement to establish McDonnell Douglas's civilian operations as a separate legal entity inside Boeing; and a promise not to abuse its dominant position to influence the aircraft supplies sector.

Most importantly - as it was on this point that negotiations became deadlocked - Boeing agreed to drop the exclusivity clauses from 20-year supply deals it has signed with three US airlines, and not to sign any more such pacts for 10 more years.

Mr Philip Condit, Boeing's chairman, said: "We're very



European Union competition commissioner Karel Van Miert at a Brussels news conference yesterday

comfortable with the agreement that we've reached." But Airbus Industrie, the European consortium whose interests Mr Van Miert had been seeking to defend, said it regretted the "arrogant and confrontational attitude of the US in these discussions".

Airbus added: "The unnecessary tension could have been avoided had Boeing proposed true remedies to the contentious points raised by the Com-

mission at the outset of these talks." Airbus said it would "vigorously monitor" Boeing's conduct to ensure it adhered to the conditions agreed with the Commission.

The three US airlines said Boeing's decision to remove the exclusivity clauses would have no effect on their ordering policy. American, Continental and Delta airlines said they would go ahead with the Boeing purchases specified in

their contracts. American, which has ordered more than 600 Boeings over the next 20 years, said: "We are quite satisfied with the fleet decisions we have made. We don't believe anything is going to change."

Mr Jacques Santer, president of the European Commission, congratulated Mr Van Miert for resisting strong pressure from across the Atlantic and said he rejected any accusa-

tions that Brussels had taken into account "other political interests" in its assessment of the deal.

He also announced that the Commission intended to launch an initiative in the autumn to strengthen the aerospace sector in Europe.

In Germany, Mr Günter

Continued on Page 12  
Europe's pyrrhic victory  
and Observer, Page 11

## Stet avoids Helms-Burton sanctions

By Bruce Clark in Washington, Guy de Jongh in London and Robert Graham in Rome

Stet, the Italian telecommunications group, has reached an understanding with the State Department and ITT, the US conglomerate, which is intended to shield Stet from sanctions under America's Helms-Burton anti-Cuba law.

The State Department indicated yesterday it was ready to waive the application of sanctions to Stet, after Stet agreed to compensate ITT for property confiscated by the Castro regime.

As one of the largest European investors in Cuba, Stet has been vulnerable to the penalties demanded by the Helms-Burton law against foreign companies "trafficking" in assets expropriated by the Castro regime.

The State Department warned several Stet executives some months ago that they could fall foul of Title IV of the act, which authorises the US to deny entry visas to executives, directors and shareholders of companies engaged in "trafficking".

ITT, which operated the Cuban telephone system before the Communist take-

over, said it had negotiated a "moratorium" with Stet, under which it would not exercise its right under Title III of the act to sue the Italian group for dealing in the property.

No details were announced, but ITT is understood to have committed itself not to sue Stet for a 10-year period in return for an undisclosed payment.

Since Helms-Burton became law, President Bill Clinton has repeatedly waived the application of Title III, which permits individuals and companies to sue in US courts for compensation for expropriated Cuban assets.

However, Stet is believed to have negotiated the deal with ITT to avoid creating problems in the US for a proposed link-up between its Telecom Italia affiliate and AT&T, the US telecommunications company. AT&T plans several ventures with the Italian group and may take a stake in it once it is privatised in the autumn.

European Union officials said the Stet agreement would help to improve the atmosphere of negotiations with the United States, aimed at achieving a settlement of the bitter transatlantic dispute over Helms-Burton by mid-October.

But a spokesman for Senator

Continued on Page 12  
Europe's pyrrhic victory  
and Observer, Page 11

## UK retail sales up as spending spree continues

By Wolfgang Münchau and Robert Chote

Britain's consumer spending boom continued unabated in June, according to figures published yesterday. They show retail sales growing at levels not seen since the end of 1988.

The Office for National Statistics, the UK's statistical bureau, reported that the volume of retail sales went up 5.4 per cent year on year in June, the same rate as in May.

The figures helped raise the pound to an eight-year high against the D-Mark. The British currency closed in London at DM3.072. It was DM3.089 the previous day.

The latest surge in retail sales was almost entirely due to windfall gains from building societies (mutual savings banks). A few of the largest societies have converted themselves into joint stock companies recently and distributed free shares to members. The total value of these shares is estimated at £25m (\$58m).

UK statisticians said yesterday

driven by expectations of further increases in UK short-term interest rates from the current benchmark rate of 6.75 per cent.

The newly independent Bank of England is expected to put up interest rates by at least another quarter point at the monetary committee meeting in August. Senior committee members are concerned the economy may be overheating.

But the strong currency presents a policy dilemma for the Bank of England, faced with a booming service economy and a depressed manufacturing sector.

The latest survey published yesterday by the British Chambers of Commerce confirmed sterling's strength was hurting UK exporters.

Mr Eddie George, the governor of the Bank of England, said "the jury is still out" on whether the recent Budget was tight enough to put downward pressure on sterling.

Bank shares soar, Page 13

Sterling's rise is being

Source: ONS/ONS

Source: ONS/ONS

Source: ONS/ONS

Source: ONS/ONS

Source: ONS/ONS

Source: ONS/ONS

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## NEWS: EUROPE

Brussels shoots down UK claims that threatened import ban carried the day in farm council

## Credit for meat safety vote disputed

By Neil Buckley in Brussels and George Parker and Maggie Urry in London

European Commission officials yesterday disputed claims by Britain that it deserved the credit for an EU decision to bring continental meat safety standards into line with the UK's.

Farm ministers voted 8-7 on Tuesday night to endorse a Commission proposal that the parts of cattle believed to carry BSE, or mad cow disease, should be removed from the human and animal food chain in an effort to eradicate the condition.

Mr Tony Blair, UK prime minister, claimed his government had secured a deal which had eluded the previous Tory administration.

He praised Mr Jack Cunningham, his agriculture minister, for his "patient negotiations with his EU counterparts".

Mr Cunningham had threatened to ban imports of beef from countries which did not match British standards, if the agriculture council voted against. The Yes vote, he said, had resulted because "Britain pressed for these controls to be put in place right across Europe".

Brussels officials, however, suggested privately that the same outcome could have been achieved through conventional diplomatic horse-trading. Mr Cunningham had merely hitched a ride on Commission proposals.

Similar measures were proposed last year by Mr Franz Fischler, the EU agriculture commissioner, but

rejected by ministers in December. After gathering highly critical veterinary inspection reports, showing some countries in Europe were not meeting existing standards, Mr Fischler gained Commission backing in May to reintroduce the measures, before Mr Cunningham issued his threat. "The British threat didn't even cross people's minds. It was pretty irrelevant," said one EU official.

Mr Ian Gardiner, policy director of the UK's National Farmers' Union, said: "The Commission put this forward on the basis of scientific and technical advice. It had strong support from some countries like the UK, Ireland and France, but it was the Commission which had to bear the brunt of persuading the others."

The good news, he said, was that the council had moved on the basis of scientific advice. That should encourage it to accept a proposal to lift the export ban on British beef, which was also based on scientific grounds.

While discounting British claims for the credit, Brussels officials felt nevertheless that the new Labour government's approach was more constructive than that of its Conservative predecessor.

One difference was a well-defined set of objectives. "They have got a fairly clear idea of how they want to set about things, step by step," said one senior agriculture official. Another was an apparent willingness to work more closely with both the Commission and the Council of Ministers.

It is also prepared to make the right gestures. Last week Mr Cunningham appeared before the European Parliament's special BSE monitoring committee. Mr Douglas Hogg, the previous farm minister, had infuriated MEPs by repeatedly refusing to appear.

"[Mr Cunningham's appearance] was symbolically very important," said Mrs Dagmar Roth-Behrendt, German Socialist chair of the committee. "For a British agriculture minister to appear in that arena for two hours and be applauded at the end was quite something."

Even Mr David Curry, the new UK shadow agriculture spokesman, praised Mr Cunningham, saying the council's vote partly reflected Mr Cunningham's "constructive approach" towards the EU.

## Olivetti ex-chief seeks plea bargain

By Robert Graham in Rome

Mr Carlo De Benedetti, the former chairman of Olivetti, the Italian information technology group, has proposed to plea bargain with Turin magistrates who have been investigating him for the last 18 months on charges of alleged insider trading.

News of the proposal leaked out yesterday from the Turin magistrates and was confirmed by a spokesman at Cir, the industrial holding company controlled by the De Benedetti family. The investigation was triggered by share trading at the end of August last year, just before Olivetti announced unexpectedly large losses for the first half of 1996.

A Cir spokesman said the plea bargaining was sub judice, and any decision would not be made by a judge for two months. If accepted, it would mean Mr De Benedetti would have to pay a fine in return for all proceedings being dropped.

The procedure also implies no formal guilt, thus Mr De Benedetti would not risk being barred from holding public or company office. Plea bargaining also has the advantage of avoiding a court judgment that could affect Mr De Benedetti's legal position regarding the collapse of the Banco Ambrosiano.

A court of second instance reduced in 1996 a six-year sentence to four and a half years for the 1982 fraudulent bankruptcy of the bank. If the insider trading case had gone to court, under Italy's complex legal system he would have risked the original Banco Ambrosiano sentence being reinstated. He is also appealing this sentence.

On September 3 1996 Olivetti unveiled first-half losses of 1,440bn (\$252m) - losses that led to Mr De Benedetti's resignation as group chairman. Just prior to this unexpected announcement, Olivetti shares fell 9 per cent in two days of heavy trading. Consob, the stock exchange watchdog, set up an inquiry in part as a result of a statement made by Mr Enzo Francesconi, the Olivetti managing director, who had resigned in disagreement over the group's accounts.

An investigation was then set in motion by Turin magistrates who questioned Mr De Benedetti, and a Turin-based stockbroking group allegedly involved in Olivetti share trading. Mr De Benedetti's son, Rodolfo, was also placed under investigation, but proceedings against him are likely to be dropped.

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## Swiss bankers uncover more dormant accounts

Estimate of unclaimed foreign money is doubled to \$41.6m

By William Hall in Zurich

Swiss banks have found more than twice as many dormant foreign bank accounts dating back to the second world war than they thought they had less than 18 months ago.

They have also increased their estimates of how much foreign money lies unclaimed in their vaults by more than 50 per cent to Sfr61.2m (\$41.6m).

Mr Kurt Hauri, chairman of the Swiss Banking Commission, said yesterday that 67 of more than 400 Swiss banks had reported a total of 1,785 bank accounts dormant since 1945.

This is more than double the 775 dormant bank accounts, totalling Sfr38.7m, that were reported by 51 Swiss banks in the last official survey in February 1996.

The latest revelations will increase the embarrassment of the big Swiss banks, which have been accused of blocking attempts by Holocaust survivors and others to regain their money.

A large part of the latest increase was due to a technical oversight at Swiss Bank Corporation, the smallest of the "big three" banks, which had not programmed its computers properly to identify accounts opened before May 1945.

Yesterday's revelations came as the Swiss Bankers Association, the Swiss Banking Commission and Mr Paul



Two Russian Jews in Moscow's Central Synagogue study names on the dormant account list.

Volcker, the former US Federal Reserve chairman who heads the investigation into dormant Swiss bank accounts, outlined plans to contact the rightful overseas owners of dormant Swiss bank accounts.

Names of account holders have been listed in newspaper adverts in 28 countries, information kits are being

distributed in 13 different languages, and would-be claimants are urged to contact toll-free telephone numbers in most of the 28 countries for advice on how to make a claim.

Until recently the Swiss banks charged Sfr300 to research each individual claim. Now the Swiss banks have promised to underwrite

the whole exercise and the advertising campaign alone is estimated to cost Sfr5m.

The need for the latest campaign is underlined by a glance at some of the names in the published list, which range from a male voice choir in Germany to Prince Hermann zur Lippe and a delegation from Japan.

Mr Georg Krayer, chairman of the Swiss Bankers Association, said yesterday that he could not understand why the banks had not made more of an attempt to contact the account holders before.

"I have not been able to find any fig leaf big enough to cover up my colleagues' negligence," said Mr Krayer. SBC said yesterday that when it began to investigate dormant assets manually it became clear that the date recorded electronically was not always indicative of the establishment of the client relationship. As a result it had revised upwards its estimate of its dormant accounts from Sfr11.4m to Sfr27.3m.

Swiss banks will publish a list of an estimated 20,000 dormant Swiss bank accounts dating back to the second world war in October. The sums of money involved are understood to be far less than the Sfr60m in foreign accounts. However, many of these accounts may have been opened by intermediaries who were acting on behalf of overseas clients.

## Greece in EU veto threat if entry of Cyprus is blocked

By Edward Mortimer and Kevin Hope in Athens

Greece refused yesterday to rule out vetoing European Union membership for applicant countries in central and eastern Europe, if Cyprus is excluded from the next wave of enlargement.

In an interview with the Financial Times, Mr Costas Simitis, Greek prime minister, also rejected Turkish threats to derail talks on a Cyprus settlement if the EU goes ahead with accession negotiations with the Greek Cypriot government. The negotiations are due to start early in 1998.

Mr Simitis insisted that the accession talks should continue "in parallel" with efforts to reunite the divided island.

He said he hoped it would not be necessary for Greece to veto EU membership for former Communist coun-

tries, since the lengthy accession procedure would leave considerable time to work out a political solution.

But if in the end other EU members sought to block Cyprus's inclusion, on the grounds that it was still divided, "Greece will use all measures offered in the

or threat of force.

Mr Simitis insisted that Turkey still had to withdraw its claims on Greek territory in the Aegean, or submit them to the World Court, before a direct dialogue on other issues could proceed.

On a more conciliatory

"The accession talks should continue in parallel with efforts to reunite the divided island"

framework of the European Union to achieve what it considers to be right," he said.

Mr Simitis said that Greece would maintain a firm line in its disputes with Turkey, notably over Cyprus and control of the Aegean Sea, while seeking to build on this month's Madrid agreement to avoid the use

note, Mr Simitis for the first time signalled that experts appointed by both sides to sort out procedural problems would meet face to face in September and not be confined to exchanging documents.

The four "wise men" were chosen in May after EU mediation. Hopes were raised for a

settlement of Greek-Turkish disputes, including the Cyprus problem, after meetings this month between Mr Simitis and President Süleyman Demirel of Turkey and between leaders of the two Cypriot communities at Troubet, New York.

But the atmosphere has been soured by statements made in Cyprus at the weekend when Mr Bulent Ecevit, Turkey's deputy prime minister, joined Mr Rauf Denktaş, the Turkish Cypriot leader, to celebrate the 28th anniversary of Turkey's military intervention on the island.

The two leaders warned that Turkey would proceed with gradual integration of northern Cyprus with the Turkish mainland if the EU persisted in negotiating membership with the purely Greek Cypriot administration in the south. Thaw in Aegean, Page 10

## Bonn approves finance bill

By Peter Norman in Bonn

The German cabinet yesterday approved a wide-ranging draft law to deregulate the market for risk capital and enhance the international competitiveness of the country's stock markets and financial centres.

The 451-page "third financial market promotion law" encompasses more than 100 measures which have been the subject of intense discussion between the finance ministry and the financial services industry for more than a year. A revision in yesterday's draft will give foreign companies more freedom to issue prospectuses in languages other than German to encourage them to list their securities on German stock markets.

Mr Theo Waigel, finance minister, said the bill, which Bonn hopes will become law before the end of this year, was a "central component" of the government's supply-side programme for more investment and jobs. He said it would strengthen Germany's financial sector in readiness for the euro, the planned European single currency.

To pass parliament, the bill will need the approval of the Bundesrat, the second chamber of the Bonn parliament controlled by the opposition Social Democratic party. The SPD yesterday had no comment to make on the bill.

The finance ministry said the planned law would make more risk capital available for medium-sized companies and for small, new innovative firms in growth sectors, as well as lower the cost of raising funds through the stock market. It would also open up new activities for financial services companies and stock exchanges and improve conditions for carrying out existing business.

The legislation will reform laws covering stock markets, investment funds and holding companies. It will make it easier for companies to access capital markets, modernise investor protection, improve the international competitiveness of German investment funds, give encouragement to equities and derivatives trading, and encourage more private provision for old age through targeted pension funds.

The cabinet approved a bill of Mr Klaus Töpfer, housing minister, to curtail subsidies in the publicly supported housing sector and raise housing costs for wealthier tenants. Parliamentary approval for the plans appeared bleak after protests from property owners, tenants' groups, opposition parties and the federal states and local authorities.

## EUROPEAN NEWS DIGEST

## Turkish alarm bell stifled

Turkey's economy minister yesterday retracted his warning that inflation could hit 100 per cent this year, considerably higher than his earlier estimate of 80-85 per cent. Mr Güneş Taner, appointed only three weeks ago, had increased his estimate from the previous government's target of 57.7 per cent.

He only backtracked after nervous financial markets had closed. During the day, average share prices tumbled 1.7 per cent and yields on treasury bills rose to 150 per cent from 111 per cent. However, the currency weakened only slightly.

Global Securities, a big Istanbul brokerage, speculated that Mr Taner was preparing for a tough deflation policy next year by allowing prices to rise sharply now, letting the overheated economy cool off before introducing reforms that would deliver a benign economic environment prior to next year's elections.

Other analysts argued that Mr Taner's remarks were simply a sign of poor judgment which had cost him credibility in the markets and the business community.

John Barham, Ankara

## RUSSIA'S MILITARY

## Navy chief announces cuts

The Russian navy is to cut its personnel by some 30,000 by next year and take outdated ships out of service, Admiral Feliks Gromov, its commander-in-chief, announced yesterday in Vladivostok. At the same time, it will make every effort to introduce new ships and equipment and maintain its technological level, he said. Russia's armed forces have been hit hard by a chronic lack of funds because of the country's economic crisis.

Recent figures indicate the navy has some 320,000 personnel, of whom 200,000 are conscripts.

President Boris Yeltsin has called for a sharp reduction in the size of the military and for conscription to end.

In an interview in the latest issue of Moscow weekly Argumenty i Fakty, Mr Igor Sergeev, the defence minister, said it was planned to reduce the number of senior officers in the army from 1,525 to 1,400 next year, and eventually to 1,300. Total armed forces would be cut from 1.8m to 1.5m by 1998, said to 1.2m the following year. Mr Sergeev said he expected a 1m-strong army eventually.

Mr Yeltsin yesterday ordered the sale of thousands of stores, restaurants, sports centres and other loss-making facilities belonging to the armed forces in an effort to raise cash for unpaid wages, according to the Itar-Tass news agency.

Charles Clover and agencies, Moscow

## IMF MISSION IN KIEV

## Ukraine expects standby loan

The International Monetary Fund will approve a \$750m one-year standby loan for Ukraine in the near future, according to Mr Anatoly Galchinsky, deputy head of the presidential administration. "There will be a one-year standby loan, which will cover the second half of this year and the first half of next, worth \$750m," he said yesterday.

An IMF mission is in Kiev this week completing talks on the deal. Ukrainian officials said they expected the team to recommend that the loan be released next month. It is less than a month since the IMF said Ukraine was not ready, because of slow progress on reforms, to meet the conditions of a three-year loan deal worth \$2.5bn-\$3bn agreed late last year.

Ukrainian officials have said they hope the standby will be followed in early 1998 by a new long-term loan, but Mr Galchinsky's comments yesterday suggest that credit will not come until the second half of next year.

AP, Kiev

## SICILIAN MAFIA

## Former top judge accused

Prosecutors in the Sicilian capital Palermo said yesterday that they wanted to put a former senior judge on trial for alleged links with the Mafia. They claimed in a 1,000-page report that Mr Corrado Carnevale, once a member of the Court of Cassation, Italy's highest court, should be tried for complicity with the Sicilian Mafia.

The document, submitted to an examining magistrate who will decide whether there is a case to pursue, contained details of several court cases allegedly "adjusted" in the Mafia's favour. It also included evidence from 12 ex-Mafiosi who have turned state's evidence.

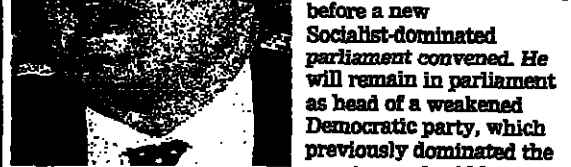
Mafia cases were at one time regularly assigned to the first section of the Court of Cassation, over which Mr Carnevale presided, and the former judge earned the name "verdict killer" for the number of convictions he quashed on technicalities. He is best known for freeing Mafia godfather Michele Greco from jail in 1991 and quashing life sentences on two lesser Mafia bosses convicted by a lower court of bombing a Naples-Milan express train in 1984.

Reuters, Palermo

## ALBANIAN POLITICS

## Berisha announces resignation

Albania's President Sali Berisha (left) yesterday announced his resignation, fulfilling a pre-election promise and clearing the way for his Socialist opponents to try to bring the anarchy in the country to an end. Mr Berisha announced his resignation in a radio broadcast shortly before a new Socialist-dominated parliament convened. He will remain in parliament as head of a weakened Democratic party, which previously dominated the country, and said he would



fight for a free-market system and Albania's acceptance into western defence and economic organisations. He and his party suffered a huge loss of popularity because of the perception that they had profited from pyramid investment schemes which collapsed early this year, taking the savings of many Albanians.

AP, Tirana

## HUNGARY-ROMANIA RELATIONS

## Consulate reopens in Cluj

Hungary yesterday signalled improved bilateral relations with Romania by reopening a consulate in Cluj closed down by the late Communist dictator Nicolae Ceausescu nine years ago. However, the event was marred by Romanian nationalists who telephoned death threats to Mr Viktor Ciorbea, the country's prime minister, accusing him of giving too many rights to Romania's 1.7m ethnic Hungarians.

Once a bilingual city with many native German speakers, Cluj now has a population of 330,000, about a quarter of whom are ethnic Hungarians. It is located some 200 miles northwest of Bucharest, in Transylvania, where most of the ethnic Hungarians live.

AP, Cluj



# Private enterprise blooms in a bleak environment

In the last of three reports from eastern Ukraine, Chrystia Freeland reports on how a region once synonymous with Stalinist industrialisation is proving attractive to foreign investment

Luhansk, a gritty industrial city in the Donbas region of eastern Ukraine, is hardly a popular venue for foreign investment. The collapse of the local economy based on coal mining and heavy industry has pushed the area into a depression which is bleak even by former Soviet standards. Street lighting and hot water have become luxuries and the city pavements are lined with unemployed workers seeking to supplement meagre incomes by selling a few bars of soap or a couple of cheap dresses. In this seemingly hostile climate, however, a small British-Ukrainian joint venture called Britanica, which makes telephones and sells a wide range of consumer goods, has prospered. Last year it manufactured 210,000 phones and made a

\$600,000 profit. Founded in 1994, it has grown from five employees to 300 and created a network of 17 regional service and distribution centres across Ukraine and Russia. Britanica's success, and its enthusiastic expansion plans, are part of an important, but widely overlooked, trend. At a time when large corporations are shying away from making direct investments in the former Soviet Union, thousands of brave adventurers such as Mr Robert Tyldesley, one of Britanica's founders, are seeking and finding their fortunes in Europe's new frontier. Their entrepreneurial spirit, and the energetic contributions of their local part-

ners, are the best hope these sad Slavic lands have of emerging from the doldrums. "I think the advantage we've got here is purely that we've had the courage, the guts to get off our backsides," says Mr Alfred Gooding, chairman of Big Tree Products, a British manufacturer of heating and domestic products. "I think that if we can make this venture a success, we could get 50 other firms coming out to work here."

Britanica's founders, who are hoping this year to expand into the production and sale of electric kettles and small domestic and water heaters, see a tremendous business opportunity in Ukraine because of the country's combination of low labour costs and huge market for consumer goods. To tap into that market of 50m people, Mr Thor Sedykh, the company's Ukrainian partner, believes it is crucial to convince Ukrainian consumers, made sceptical by 70 years of shoddy Soviet goods, that they are buying a quality product. When Britanica telephones were launched in Luhansk, he proved that point by holding his telephones out at arm's length and dropping them. "A Soviet telephone would have broken into dozens of pieces, but ours didn't," says Mr Sedykh, a former senior

manager at a local armaments factory producing ammunition for Kalashnikov machine guns. "It might seem vulgar, but it was a trick which really helped us to show how our telephones were different." Another key step, according to Mr Tyldesley, has been the creation of an extensive, commission-only sales team. Like other companies, including the international cosmetics giants whose business is booming in the former Soviet Union, Britanica has discovered that the elaborate friendship networks which were vital for survival under communism are useful engines of capitalism. Britanica sales

agents peddle their wares to their chums, go door to door in their dingy Soviet apartment blocks, and visit local shops at least once a week to see if they need new stock. But, while Britanica's partners are full of praise for the ingenuity and endurance of their sales staff, they have nothing but scorn for Ukraine's meddlesome bureaucracy, whose interference they say is the biggest bar to doing business in the Donbas. "The biggest problem is connected with bureaucracy. It is very draining, and one of the most difficult things is that major new hurdles just suddenly appear," complains Mr Tyldesley, who is the

only resident foreign businessman in a hundred-mile radius. Their greatest problem is Ukraine's cumbersome product certification system, full of pitfalls which serve to enrich the country's underpaid civil servants but act as a powerful brake on the economy.

Even so, some traditional obstacles to doing business seem to be vanishing as this impoverished region realises that new investment is the only way to stimulate the dying economy of the Donbas. For example, in spite of Ukraine's national reputation for laggardly privatisation, when Britanica set out to buy a factory this spring

was virtually any number of factory directors who would come to us and say, 'If you can bring jobs, you can have the factory'," recalls Mr Tyldesley. "We realised that there was virtually any number of factory directors who would come to us and say, 'If you can bring jobs, you can have the factory'." Previous articles appeared on July 7 and 23

## Central European floods

### Kohl cabinet clears aid for stricken areas

By Peter Norman in Bonn

Chancellor Helmut Kohl's cabinet approved emergency support measures yesterday for flood victims in eastern Germany after the first dyke broke on the German bank of the River Oder.

In Poland, where more than 500 communities were still under water, river authorities said the Oder flood wave was heading towards the southwestern city of Opole and was likely to inundate a residential estate at Wroclaw, a short distance to the north.

New floods were also expected near the Warta river, which merges with the Oder at the border town of Kostrzyn, north of the threatened German city of Frankfurt an der Oder. Polish authorities revised the official death toll from three weeks of flooding in Poland down from 60 to 55.

Following Mr Kohl's visit on Tuesday to the crisis region around Frankfurt, the German cabinet approved DM20m (\$11m) of emergency assistance and announced that Kreditanstalt für Wiederaufbau, the state-owned development bank, would provide DM200m in credits at half the market interest rate to cover damages.

Mr Theo Waigel, the Bonn finance minister, will open talks with the Brandenburg state authorities on special tax relief for flood victims, while Mr Matthias Wissmann, the transport minis-

ter, was instructed to begin discussions with the state on repairing damaged bridges, roads and dykes.

The decisions came after the River Oder burst through a dyke on its west bank at Brieskow-Finkenheerd, a few kilometres south of Frankfurt. Army helicopters dropped giant sandbags into the gap in vain.

The hole in the riverside defences rapidly widened to 250m and water flooded at a rate of 500 cubic metres per second into a surrounding low-lying area 60km square.

The authorities ordered the evacuation of more than 2,000 people from nearby villages, but many refused to move for fear of looting. Others who had been evacuated on Tuesday quickly returned to their homes.

In Frankfurt, the waters were one centimetre above the level of the record flood of 1930 and reached the highest level since records began in the 18th century.

It was unclear yesterday whether the crisis would worsen. While glorious summer weather in the Frankfurt area held out the hope of a respite from the floods, Mr Alwin Ziel, the interior minister of Brandenburg, warned that the river would continue to rise.

The defence ministry reported that troops were working around the clock to strengthen the river bank with sandbags. A further 5,400 were available to help.

### Czechs to put three banks up for sale

By Anatol Lieven in London

The Czech finance minister, Mr Ivan Filip, announced yesterday that he would submit a plan for the sale of three of the country's four largest commercial banks on August 20.

The weakness of the Czech financial sector has been identified as an important factor in the country's economic difficulties, and a sale to western banks - though not yet guaranteed - would be one of the most significant steps to date in the reform process. The government will be seeking to sell its controlling stakes in Komerční Bank, Spořitelna Bank and CSOB Bank. All three have been audited by the six biggest international auditing companies.

Analysts caution, however, that the privatisation process may be a difficult one. A 15 per cent stake in Komerční and approximately one third in CSOB are held by the Slovak National Property Fund as a result of the "velvet divorce" between the two countries.

The Slovak side is understood to be willing in principle to sell its share, but is seeking to link its agreement to Czech concessions concerning disputed shared assets. Mr Filip said he expected negotiations with the Slovak Property Fund to begin soon.

Mr Filip's statement appears to represent a

defeat for the Czech state bank, which has been pressing for a merger between CSOB and Spořitelna to take place before the banks are privatised. This would have created a more attractive prospect for western buyers. Some 34 per cent of Komerční Bank's assets are currently non-performing, with lesser figures for the other two. Floods on top of this year's economic crisis, have put pressure on Czech industries, and there are fears that this proportion could increase.

The Czech government has been discussing bank privatisation for several years, but Mr Miroslav Nosal, head of research at Patria Finance, said that Mr Filip had brought a new determination to the task owing to the economic crisis. He added, however, that there would probably be opposition from other ministries and some of the banks themselves.

It is not clear whether the government has really made up its mind to follow the pattern of neighbouring Hungary and sell its entire stake in the banks to foreign strategic investors.

The sale of the Czech Republic's second largest bank, IPB, was held up in May when its head and his deputy were arrested and charged with fraud. IPB has been sold to Nomura, and the government has promised that the deal will go ahead in the coming weeks.

## Austrian budgets set nation on target for Emu

Austria's finance minister, Mr Rudolf Eisinger, will today present parliament with budgets for the next two years that are in line with the convergence criteria for the planned single European currency, writes Eric Frey in Vienna.

According to Mr Eisinger's forecasts, the federal budget deficit as a percentage of gross domestic

product will slide from 2.7 per cent this year to 2.6 per cent next year and will stay there in 1999.

Even including a deficit of 0.3 per cent of GDP by the federal states and the communes, Austria would remain below the 3 per cent threshold stipulated in the Maastricht treaty. With low inflation and a total debt burden that is

gradually falling to the 60 per cent limit, Austria would therefore be poised to meet all the criteria for joining Emu in 1999.

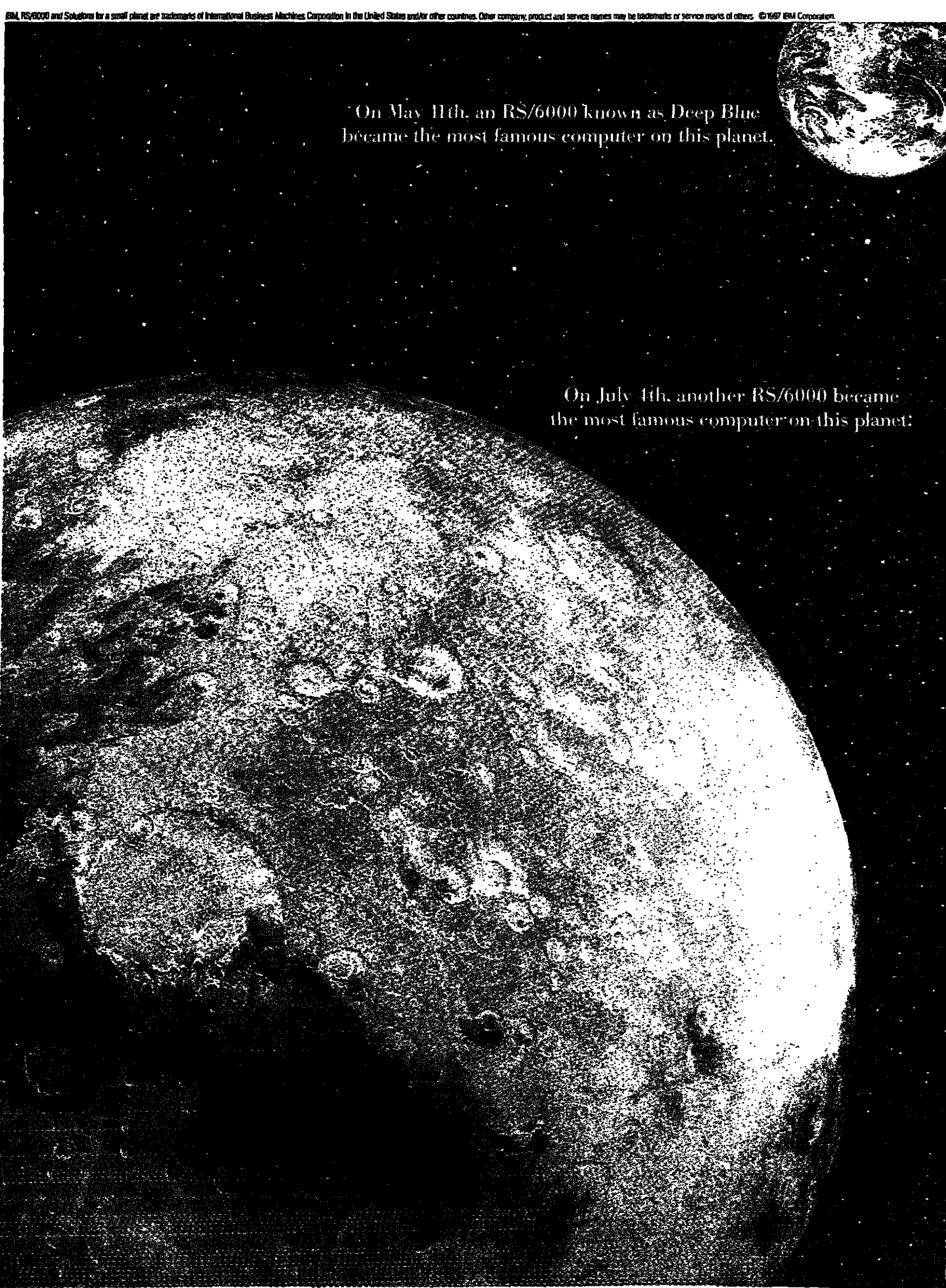
Mr Eisinger's forecasts assume economic growth will rise from 1.4 per cent this year to 2.9 in 1998. This should allow the government to increase its absolute deficit from Sch67bn (\$5.3bn) in 1998 to

Sch70bn in the following year, while keeping it steady as a share of GDP.

The budget plans include more spending for crime prevention, education and social security, but keep capital investment spending relatively low.

The coalition government made a last-minute effort yesterday to

reach agreement on a comprehensive pension reform that should be presented together with the budget. But wide differences remained between the Social Democrats, who want part-time earnings subject to payments into the federal pension scheme, and the conservative People's party, which fears job losses from such a measure.



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## NEWS: ASIA-PACIFIC

Regional currencies slip as hopes centre on Asian central bankers' meeting tomorrow

## Baht at historic low as slide continues

By James Kyrie in Kuala Lumpur and William Barnes in Bangkok

The Thai baht plunged to an historic low and other south-east Asian currencies also weakened yesterday, as thoughts turned to whether an Asian central bankers' meeting tomorrow might restore stability to the region's markets.

The baht ended in Bangkok at B32.40 against the US dollar, down from B30.95 on Tuesday and well below the B26 level at which the central bank had pegged the currency before it was forced to float it on July 2.

The Thai currency was principally undermined by its own weakness yesterday as Thai-based corporations, estimated to have a total

of US\$60bn in unhedged foreign debt, were forced to buy dollars to protect themselves against further declines in the currency.

Dealers said yesterday's trade appeared to be driven by genuine commercial demand, and not speculative activity. Poor first-half earnings reported by local banks and finance companies contributed to the baht's weakness, economists said.

The Thai central bank appeared to intervene slightly yesterday after failing to protect the baht at B30 last week. A consensus exists that the Bank of Thailand no longer has the reserves to do much more than "smooth the baht's decline".

Similar assumptions are being

applied to the central banks of the Philippines and Malaysia, which this week announced its reserves had fallen by M\$8.8bn (\$3.3bn) during a bruising battle with speculators in the first 15 days of this month.

Against this backdrop, Asian central bankers are expected to be eager to find ways to support south-east Asia's beleaguered currencies when they meet in Shanghai tomorrow.

Economists, however, said that market expectations of a commitment to concerted central bank intervention may be overblown. It might be rash to hope for more than a strongly-worded communiqué on the need to restore stability, the economists added.

"The meeting will probably have a calming effect on the [south-east Asian] currencies," said Mr Kobus van der Wath, head of treasury economics at Standard Chartered Bank in Singapore.

Countries to be represented at the meeting, which some have dubbed a "sort of Asian Group of Seven", include Japan, Hong Kong, Singapore, Malaysia, the Philippines, Thailand, Australia, New Zealand, South Korea, China and Indonesia.

Elsewhere in south-east Asia, currencies continued to slide yesterday. The Singapore dollar fell to a low of about S\$1.4690 from S\$1.4645 after comments by Mr Richard Hu, finance minister, which appeared to suggest that

Singapore would allow market forces to decide its currency's value.

The Malaysian dollar, or ringgit, was hit by offshore selling following news that the reserves of Bank Negara, the central bank, had plunged. The ringgit was trading at M\$2.6355/\$ to the US dollar, compared with M\$2.6230 earlier in the day.

The Indonesian rupiah remained weak after being dragged down by the fall in the baht. In late trade, the rupiah was at 2,597 against an opening price of 2,570. The Philippine peso fell on commercial demand for dollars, closing at P23.50 to the US dollar against 23.15 previously.

Currencies, Page 21

## ASIA-PACIFIC NEWS DIGEST

## Japan aims to boost tourism

Japan is aiming to double the number of overseas tourists to the country to 7m by the year 2005. Tourism in the East Asia-Pacific region is showing one of the world's fastest growth rates, but inbound tourism to Japan is relatively depressed, according to the Ministry of Transport. Japan had 2.1m tourists in 1992 but the numbers dipped to 1.7m in 1995 before recovering to 2m last year, the World Tourism Organisation says.

A Transport Ministry plan to stimulate overseas demand through increased marketing, mainly in Asia, was approved by parliament last month. The ministry also plans to revitalise regional areas and entice tourists away from the tourist centres of Tokyo and Osaka. Taiwan and Korea are the top two suppliers of tourists to the country, which earned \$3.6bn in tourism receipts last year, compared to Korea's \$6.3bn and China's \$10.5bn. The Japan National Tourist Organisation said 115 hotels were scheduled to open by 2000, with a combined capacity of 26,000 rooms. *Scheherazade Daneshkhu, London*

## MACAO CASINOS

## Deal to raise takings

Macao, the Portuguese enclave off southern China, yesterday moved to boost its share of takings from the gaming tables. Under an agreement with Dr Stanley Ho, who holds the casino monopoly, the government raised the franchise's tax from 30 per cent to 31.8 per cent of gambling gross takings, and backdated the higher rates to January 1996.

Sociedade de Turismo e Diversões de Macau (STDM), founded and controlled by Dr Ho, last year had gross takings in excess of 16bn patacas (\$2bn), more than 5.9bn patacas of which will now accrue to the government. Dr Ho will also pay "at least" 400m patacas to the government to build a cultural centre, and a further 130m patacas plus 1.8 per cent of annual gross takings to a yet to be established development foundation operating under the government.

Dr Ho is betting on the gambling business remaining robust. In return for his increased contributions to the government, he has won permission to open his tenth casino in the enclave. *Lois Lucas, Hong Kong*

## CALL TO COMMONWEALTH

## Return for Fiji urged

Fiji should be readmitted to the Commonwealth, following its adoption of a less racially-based constitution, Mr Alexander Downer, Australia's foreign minister, said in a radio interview yesterday. The South Pacific nation was ejected in 1987 after declaring itself a republic following a second military coup.

It passed a constitution in 1990 setting aside parliamentary seats on the basis of race and guaranteeing a majority for ethnic Fijians. A new constitution allowing for a multi-racial government will become law in Fiji tomorrow. Fijian Prime Minister Sitiveni Rabuka said this year his nation might rejoin the Commonwealth membership at the group's heads of government meeting in Scotland in October. *Reuters, Canberra*

## PAKISTAN LOAN

## ADB mulls \$250m aid

The Asian Development Bank is considering a \$250m loan to Pakistan for developing the country's capital markets, ADB officials said yesterday. Mr S B Chua, ADB resident representative in Pakistan, said the loan was expected to be approved by the bank's board before the end of this year.

"The government (of Pakistan) has adopted a Capital Market Development Programme with support of the Asian Development Bank," an ADB statement said. "The programme is to be supported by a loan of \$250m and a package of technical assistance programme of \$7.4m."

ADB officials said the programme aimed to enhance competition among market participants by easing investment requirements for the insurance industry and private sector provident funds. It would also rationalise the tax system for private corporate income securities and mutual funds. A securities and exchange commission is to be set up to oversee regulation of the securities market and the state Corporate Law Authority is to be restructured. *Reuters, Islamabad*

## Fear grips Philippines 'kidnap capital'

Clashes with Islamic rebels are dealing death blows to Cotabato's hopes of economic recovery

Mr Pacifico Chua, owner of the Pacific Heights Hotel in the southern Philippine city of Cotabato, likes drinking tequila. After a few glasses, he will tell you all about the kidnapping scourge which has swept the town and hit local business this year.

"Before these kidnappings, my hotel was always full and I used to send customers to other hotels," he says. "Now, if there are no kidnappings or killings one day, that's news. Every businessman here gives money to the Islamic rebel groups, the MNLF or MILF, for protection. If I want to buy building materials, they cost 20-30 per cent more here. Why? Because everyone's paying protection money."

In April, his sales fell 20 per cent; in May they tumbled a further 50 per cent and June promises to be no better, he says. Staff have been cut from 28 to 21 and there are plans to shed another five shortly.

Cotabato is a charming place among the rolling green hills of some of the most fertile land in the archipelago. In the heart of Moslem Mindanao, the city is also at the epicentre of the violence which has held

back the region's development ever since Spanish conquistadors trounced the Moslem sultanates in the 16th and 17th centuries.

Today, the destructive combination of kidnappings and military confrontations between the government's armed forces and secessionist Islamic rebels are dealing death blows to the city's hopes of economic recovery.

Mr Chua is a Chinese-Filipino businessman, by definition a prime target for kidnappers. Ethnic Chinese businessmen have become particular victims because they are the most affluent members of the community.

Mr Chua's former regulars were involved in companies selling hardware, car supplies, agricultural products and clothes. Equally tempting is their tendency to be extremely discreet in terms of reporting kidnappings to the authorities.

The reluctance to use official channels is simply a reflection of the fact that, apart from the Islamic rebels who play havoc with Moslem Mindanao's peace and order, the other main perpetrators of kidnappings are said to be members of the armed forces and the Philippine National Police (PNP). Earlier this year, a Manila newspaper

published a list of 87 policemen and 27 soldiers whom it said were part of professional kidnapping syndicates.

"Cotabato City has become the kidnapping capital of the Philippines; the Chinese community is being plagued by an unprecedented epidemic," said a western diplomat.

"In a sense, the government is the victim of its own success, having scared the gangs out of Manila back to their home town of Cotabato. We are advising our people not to travel there for anything other than short, essential trips."

Ever the pragmatist, Mr Chua has cordial relations with the Moro Islamic Liberation Front, the main Moslem rebel group, which also has a reputation for kidnapping, and he deliberately does not fraternise with the armed forces. But he is still not leaving anything to chance.

A hidden closed circuit television camera, almost unprecedented for a small provincial hotel, monitors all vehicles and visitors at the heavily protected entrance. Above the perimeter wall, 6ft of extra fencing is designed to deter the more athletic intruder. Inside the com-



Pacifico Chua: "Everyone's paying protection money."

pound, a security guard provides the final line of resistance.

Such precautions might seem like paranoia but according to the military's figures, 36 kidnappings have

occurred this year; given the widespread lack of reporting, everyone believes the true figure is far higher.

In May, after intense lobbying by ethnic Chinese businessmen desperate for

an end to the climate of fear, the military took over anti-kidnapping responsibilities in Cotabato from the PNP, a move which alarmed many in a country still smarting from almost two decades of martial law under the dictator Ferdinand Marcos.

Critics accuse the armed forces of a heavy-handed approach to the problem but a spokesman for the 6th Infantry Division of the Philippine army based in the city argues the army is the logical choice.

"The kidnapping business here is being waged by the MILF, a big rebel force with high-power firearms," he says. "The PNP is totally inadequate to carry out the objectives of totally destroying the kidnappers."

The military claims it has reduced kidnappings, but for men like Mr Chua the problem has not disappeared. After more tequila, he becomes confiding.

"I'm worried about my children," he says. "I sent two to Manila and one to Canada. You think they can handle this place? As for me, I don't like it here, but I'll die in this city because I know how to make money here."

Justin Marozzi

## Hun Sen agrees to Asean role in Cambodia

By Ted Bardacke in Kuala Lumpur

The Cambodian leader, Mr Hun Sen, has reversed course and accepted a mediating role for the Association of South-East Asian Nations (Asean) in restoring stability to his troubled country, the Malaysian foreign minister said yesterday.

Mr Abdullah Ahmad Badawi said Asean believed the two-party coalition which emerged from the 1993 UN-

sponsored elections and was toppled earlier this month in a coup led by Mr Hun Sen, the "second" prime minister, should be restored. He also said that Asean still recognised ousted Prince Norodom Ranariddh as "first" prime minister.

But Asean has also moved away from its idea of creating a caretaker government in Cambodia to oversee elections scheduled for next May. Mr Badawi said Asean was ready to accept a

replacement for Prince Ranariddh if that person were chosen according to the Cambodian constitution.

Mr Hun Sen has said he plans to convene a session of the National Assembly as early as next week to depose Prince Ranariddh and replace him with Mr Ung Huot, the foreign minister and a member of the prince's royalist party.

"So long as they do everything constitutionally in accordance to the process I

suppose we have to recognise that," said Mr Badawi. "It could be anybody."

Mr Badawi was speaking after the foreign ministers of Indonesia, Philippines and Thailand, who are co-ordinating Asean efforts on Cambodia, met Mr Ung Huot on the sidelines of Asean's annual ministerial meeting. Cambodia was scheduled to be admitted to the group with Burma and Laos yesterday but its admission was delayed indefinitely in the

wake of the coup.

The move comes amid a flurry of diplomatic activity over Cambodia. Mr Stephen Solaz, the US envoy, met Mr Badawi earlier in the day and is to meet Mr Hun Sen and Prince Ranariddh in the next few days. Mr Solaz said he supported Asean's efforts but reiterated the US position that Prince Ranariddh should not be replaced.

Asean's flexibility with regards to Prince Ranariddh is closer to the position of

Japan, Cambodia's biggest foreign aid donor and a country Mr Hun Sen needs to court. On Tuesday Japan said it might recognise Mr Ung Huot, against US wishes.

Mr Badawi said Asean's desire to take a mediating role in Cambodia was "not because we want to interfere but we think we should help this country because finally we want it to become a member of Asean".

Editorial comment, Page 11

## Enirisorse S.p.A.

Invitation to express interest to acquire  
Pertusola Sud S.p.A. - Crotone - Italy

Enirisorse S.p.A. (ENI Group), having its head office in Rome, Piazza L. Cerva 7, is hereby advising that the procedure started on April 24, 1996 has not produced a result. As Enirisorse's interest to sell is continuing, the vendor wishes to receive and evaluate purchasing offers for the whole of the share capital of Pertusola Sud S.p.A.

Pertusola's plant and headquarters are located in Crotone and its business is the production and marketing of zinc.

The plant produces approximately 100,000 m.t. of zinc per annum through an electrolytic process and is also capable of producing associated metals (Indium, Germanium, etc.) through the Cubit process.

The company employs about 480 persons; turnover in 1996 was 200 billion lire.

In order to promote the industrial development of the Crotone plant, the Italian Government has allocated a capital contribution of up to 156 billion lire, not subject to revaluation, that will become available, if specific conditions are met, upon execution of an agreement with the Ministero del Bilancio e della Programmazione Economica (the Treasury) in line with the Act of Law n. 488 - 19th December 1992.

Bain, Cuneo e Associati, is assisting Enirisorse in this transaction. For the purpose of acquiring information, interested parties should contact:

Bain, Cuneo e Associati  
Via Crocicchio, 10 - 20122 Milano  
Tel. 39/2/58288265 - Fax 39/2/58288217  
Attn. Mr. Luca di Giacomo, Rif. ERS 3

Interested parties (individuals, companies or consortia) should declare their interest in writing - fax acceptable - to Bain, Cuneo e Associati, by 12 noon on September 19, 1997, by sending a preliminary declaration of interest signed by an authorised signatory together with a description of their line of business and the reasons for the proposed acquisition.

Nominees and other intermediaries are required to disclose the identity of the party they represent. The information memorandum will be sent only to those interested parties who are believed, at Enirisorse's sole discretion, to have the necessary requirements to participate in the sale process and have provided the advisor with the executed confidentiality agreement.

The present ad is an invitation to bid and does not represent a public offer (ex art. 1336 of Italian Civil Code) nor a solicitation to public savings under art. 1/18 of the Italian Act of Law n. 218/1974 as amended. Neither the present invitation nor the receipt of an offer will create an obligation or commitment for Enirisorse to sell to any bidder, nor give any bidder any right or claim whatsoever on or against Enirisorse or its advisor, including payment of brokerage or consultancy fees.

The Italian text of the present invitation prevails over any other published in a different language outside Italy.

The present invitation and the sale procedure are subject to the Law of Italy.

Any dispute relating to the present invitation and the sale procedure will be submitted to the exclusive jurisdiction of the Court of Rome (Italy).

## Bonus shift for Japan bureaucrats

By Gillian Tett in Tokyo

After decades of running a tightly regimented bureaucracy, Japan is about to inject a new hint of individualism. The National Personnel Authority (NPA), the public-sector pay body, plans to change the pay system to award bonuses more on merit than rank and age.

The move comes after a rough year for the bureaucrats: they used to be held in high esteem, but their reputation has been

attacked in the Japanese press because of a host of bribery scandals.

The NPA's move reflects a broader wind of change in Japan. Pay has traditionally been decided according to seniority, but companies such as International Bank of Japan and Daiwa Securities are now considering introducing more merit-based systems.

Others, such as Toyota, plan stock option systems as another way of rewarding individual initiative.

Japan's 1.16m civil servants have traditionally been relatively low-paid compared with many company employees. Their average monthly salary is ¥324,091 (\$2,810); even the highest ranked official at the Finance Ministry receives basic pay of ¥582,800 a month.

But civil service jobs have other perks. They are secure: no major cuts have occurred in public-sector employment in recent years; they carry benefits such as

travel allowances.

Also, civil servants have traditionally received two hefty bonuses: last year, these amounted to almost half a year's pay, with a tiny variation for merit. Now the NPA wants to make the bonus more flexible to encourage individual achievement: next year, it wants employees who perform well to receive an extra 6.4 months' pay; those who perform not so well will only get 5.2 months' worth.

Another fringe benefit is also under threat. Japan's top civil servants have boosted their earnings at careers-end by moving to lucrative jobs in private companies: a practice known as *amakudari* - "descent from heaven". But some ministries are cutting back this practice; in fiscal 1996 it applied to only 134 officials, against 318 in 1987. At the Finance Ministry, numbers fell from 44 in fiscal 1995 to 19 last year.

## Australia CPI falls 0.2%

By Bruce Jacques in Sydney

Australia has recorded its lowest annual inflation rate for more than half a decade, with a recent string of interest rate cuts leading to negative growth in the latest quarter.

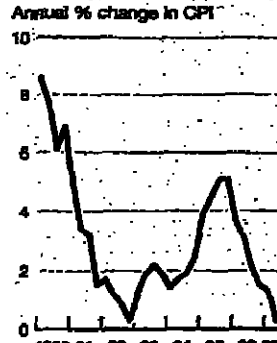
Australian Bureau of Statistics' figures released yesterday showed the Consumer Price Index, CPI, fell 0.2 per cent in the June quarter compared with a 0.2 per cent rise in the previous quarter.

That brought CPI growth for the June year to 0.3 per cent compared with 1.3 per cent for the previous year, bolstering analysts' predictions that the Reserve Bank will again cut official interest rates as early as this week.

It would be the fifth consecutive cut by the Reserve Bank. But any decision will also be influenced by official wage growth numbers for the May quarter, due for release today.

## Australian Inflation

Annual % change in CPI



Source: Department of Treasury

1972. The rate is also well within the Reserve Bank's stated targets.

The headline inflation figures were driven by four consecutive 0.5 per cent interest rate cuts implemented by the Reserve Bank since late last year. These contributed to an 8.8 per cent fall in annual housing costs, offsetting a 3.2 per cent rise in food costs and a 7.2 per cent lift in health costs.

Mr Peter Costello, the Australian Treasurer, yesterday described the inflation figures as "exceptionally good" but he warned that annual wages growth needed to remain at around 4 per cent for the benefits of low inflation to be maximised.

Mr Costello also said that final estimates pointed to an underlying government budget deficit of A\$4.93bn (US\$3.65bn) for the latest June year, substantially lower than the A\$6.86bn deficit forecast earlier.

21st Century Trust  
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STUDY TOUR OF SOUTH AFRICA AND NAMIBIA

Johannesburg, Durban, Cape Town, Windhoek

31 October - 12 November 1997

The 21st Century Trust promotes international contact and debate amongst the rising generation of decision makers and opinion leaders worldwide. In addition to our regular programme of residential conferences we are organising a study tour of South Africa and Namibia, which will examine on the spot the challenges of political and economic reconstruction these countries face into the 21st century.

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- Visits to centres of government and industry, townships and development projects.
- Opportunities for sightseeing and recreation.

Forthcoming conference themes include the role and responsibilities of transnational corporations in the developing world; strategies for ending ethnic conflict; communications - living with new technology and global providers; bio-ethics and genetic science; the pros and cons of complete nuclear disarmament.

For details of the tour itinerary and costs, and of the 1998 programme, contact:

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NEWS: WORLD TRADE

## Trains and boats and .... car parts

By Charles Batchelor, Transport Correspondent

OOCL, a Hong Kong-based shipping line, has launched a twice-weekly rail service carrying car parts from the port of Antwerp in Belgium to a Chrysler assembly plant in Graz, Austria.

This is OOCL's first move into train operations in Europe though the company already operates container trains in the US and China. It reflects the increasing involvement of shipping lines in European rail shipments.

The parts, for Chrysler's Voyager and Jeep Grand Cherokee models, are shipped by container on OOCL vessels from the north American ports of Norfolk, New York and Montreal. In Antwerp they are transferred to flatbed rail wagons and moved on trains consisting of up to 80 wagons reserved exclusively for Chrysler.

OOCL has always moved Chrysler parts by rail but its containers were previously moved on mixed trains carrying consignments for other companies. Forming "block trains" consisting solely of Chrysler containers allows for a more reliable service and cuts costs, said Mr Jim Poon, chairman of OOCL (Europe).

OOCL planned the train timetables across Belgium, Germany and Austria but the locomotives, their crews and the wagons are chartered from Transbracht International, the marketing arm of German Railways.

Other recent arrivals on the rail freight scene include NDX Intermodal, an alliance of CSX Intermodal of the US and the German and Dutch railways.

The private sector rail freight companies are being drawn to Europe by the break-up of the large state owned rail monopolies and the more commercial approach being taken by some rail managements.

## Japanese survey clears Fuji

By Bethan Hutton in Tokyo

Fuji Photo Film's business practices in the Japanese film and photographic paper market do not breach the anti-monopoly law, according to a survey by the Japan Fair Trade Commission.

The finding is new ammunition for the Japanese in the dispute between Fuji and Eastman Kodak, the US photofilm manufacturer, which is currently before the World Trade Organisation. Japan's Ministry of International Trade and Industry said that although the report was not directly linked to the WTO dispute, it did provide extra

evidence to support the Japanese government's position.

Miti said the survey showed that both foreign and domestic manufacturers had adequate channels to distribute their products to retailers, and that subsidiaries of Kodak, Konica and Agfa performed similar functions to the (nominally independent) primary wholesalers of Fuji products. There was no factual support for claims that Fuji had been coercing primary wholesalers into exclusive business arrangements, Miti said.

Ms Charlene Barshefsky, the US trade representative, immediately attacked the

JFTC's conclusions. The survey's findings "confirm many of the anti-competitive practices thoroughly documented by the US and EU in this sector," and "whitewash the problems that exist in this sector," Ms Barshefsky said.

While the JFTC said that Fuji had not breached any trade rules, it did suggest some ways in which Fuji might alter its business practices. Fuji should review its systems of guarantee deposits, and its sales promotion payments, in order to give greater flexibility to the primary wholesalers, the commission said. Other recommendations applied to the industry as a whole, such as not tying sales of below-cost minilab processing equipment to sales of photographic paper.

The bitter and complicated dispute started in 1995, when Kodak submitted a petition

to the US government accusing the Japanese government of effectively barring foreign access to the Japanese film and photographic paper market.

Ms Barshefsky described the recommendations as "weak and woefully insufficient". The commission was not yet a strong and independent agency capable of dealing effectively with such issues or addressing the informal market access barriers faced by foreign companies in the Japanese market, she said.

The dispute started in 1995, when Kodak submitted a petition

to the US government accusing the Japanese government of effectively barring foreign access to the Japanese film and photographic paper market. The case was taken to a WTO panel last year, and a ruling is due in October this year, but appeals could prolong the dispute into 1998.

## US finds a lever on Canada utilities

Bernard Simon on the influence of Washington regulators across the border

US regulators are proving to have more influence over Canada's power utilities than either the utility owners or their customers.

Ontario Hydro and Hydro-Quebec, two of North America's three biggest power companies, have for years displayed the traits one might expect from government-controlled monopolies - an aversion to competition and a take-it-or-leave-it attitude towards consumers.

When the federal government pushed the 10 provinces three years ago to dismantle inter-provincial trade barriers, electricity was one of the first sectors taken off the negotiating table.

But Washington's Federal Energy Regulatory Commission, FERC, appears to be succeeding where Canadian free-market advocates failed. FERC's influence north of the border was evident in a July 9 deal between Hydro-Quebec and Enron, the US natural gas distributor. The Canadian utility will gain a foothold in the north-east US energy market by enlisting Enron to market its electricity in New England. In return, Hydro-Quebec agreed to sell Enron's gas to its customers in Quebec.

FERC set the ball rolling last year with a ruling, known as Order 888, that

compels US utilities to open their transmission lines to all newcomers, although they can refuse access to any supplier that fails to provide reciprocal treatment.

These rules give FERC a powerful lever over foreign as well as domestic utilities. The Canadians are loathe to jeopardise their US business. Hydro-Quebec earned C\$484m (US\$353m) from power exports in 1996, equal to 8.8 per cent of total sales. The Montreal-based utility, which is one of North America's lowest-cost power generators, thanks to vast hydro-electric resources, sees huge potential in the north-east US.

Ontario Hydro acknowledges the FERC rule could endanger virtually its entire projected 1998 export revenue, estimated at about C\$275m. Ontario has asked FERC to delay implementation of Order 888 pending an overhaul of the province's electricity legislation. The provincial government will outline its proposals soon.

Ontario contends Order 888 will hit it much harder than other Canadian or US utilities. The "mandated open access" rule applies only to wholesale supplies, which make up an average of only 10 per cent of US utilities' business. But Ontario Hydro sells about 70

per cent of its power to municipal utilities.

Recent evidence suggests Ontario has come to recognise which way the wind is blowing. Mr Allan Kupcis, Ontario Hydro's chief executive, said: "The market must prevail. To disagree would be to fly in the face of all that is going on around us."

### Companies have displayed the traits expected from government monopolies

Hydro-Quebec initially also took an uncompromising stand. However, it was jolted by FERC's refusal in October 1996 to sanction a partnership with Noverco, a Quebec natural gas supplier, and Pittsburgh-based Consolidated Natural Gas, a pipeline operator. The partnership would have offered US consumers different packages of energy depending on cost and convenience.

Furthermore, a breath of fresh air has swept through Hydro-Quebec since Mr André Caillé's appointment last year as chief executive. Mr Caillé previously headed a publicly-traded gas utility.

According to Mr Gary Volians, an Ottawa power industry consultant, Mr Caillé realises that Hydro-Quebec will be able not only to survive but, as a low-cost producer, to prosper under open competition.

Hydro-Quebec is now taking a more conciliatory stance towards Order 888. It has set up a new transmission division to give non-discriminatory access to outside suppliers. Its change of heart is especially evident in a long-simmering dispute over the Churchill Falls hydro-electric project in neighbouring Labrador.

Churchill Falls is the world's sixth biggest hydro-electric scheme, with a generating capacity of over 5,400 megawatts. Two undeveloped sites, Gulf Island and Muskrat Falls, could boost the total to 8,600 megawatts.

Hydro-Quebec buys virtually the entire Churchill Falls output under a 1969 deal with the government of Newfoundland and Labrador. The 65-year agreement has turned out to be a bonanza for Hydro-Quebec. The price at which it sells Churchill Falls power is 20-30 times higher than cost.

According to the Newfoundland government, the Quebec utility makes a profit of about C\$600m a year from Churchill Falls,

while Newfoundland, the most impoverished of Canada's 10 provinces, pulls in only about C\$16m.

Until recently, Quebec has turned a deaf ear to Newfoundland's pleas to renegotiate the 1969 agreement. Canada's supreme court has also ruled in favour of the French-speaking province.

But under Order 888, Hydro-Quebec would have to make its transmission grid available to Newfoundland if the latter decided to expand Churchill Falls and export its electricity to the US.

Newfoundland would be unlikely to consider a role for Hydro-Quebec unless, in the words of Mr Brian Tobin, the province's premier, the "fundamental injustice" of the 1969 deal was redressed.

However, Hydro-Quebec would be an obvious partner. "If anybody knows how to develop the Upper Churchill and transmit power at the lowest cost, it's Hydro-Quebec," Mr Volians says.

Mr Tobin disclosed recently that Newfoundland and Quebec had begun secret talks on a new Churchill Falls agreement.

The two provinces aim to reach agreement by the end of the year, allowing Newfoundland to share more profitably in its resources and Quebec to realise its ambitions in the US.

### WORLD TRADE NEWS DIGEST

## Leghold traps deal approved

European Union foreign ministers have approved a deal with Canada and Russia limiting the use of controversial leghold traps for trapping animals, throwing the spotlight on to the US, which has so far refused to accept a deal.

The agreement will avert a threatened EU ban on fur imports from the two countries.

It was negotiated by the European Commission in May, but EU environment ministers last month failed to muster the necessary majority to back it, leaving the issue to be decided by foreign ministers. The UK, Austria and Belgium continued to oppose the deal, saying it was inadequate and had to be extended to the US.

Animal rights groups also attacked the agreement, warning that it would not end animal suffering. But Sir Leon Brittan, EU trade commissioner, said the deal was a "major advance for animal welfare".

The agreement will allow wooden jaw-type traps to continue to be used by certain indigenous peoples in Russia, plus plastic-padded and under-water leghold traps - although these have been condemned as cruel by animal rights groups. But it will immediately ban the use of all jaw-type leghold traps in Canada for seven of the 12 species for which they are used. Steel-jaw traps will be outlawed for the remaining five species by 2000.

Efforts will now switch to getting a deal with the US, which insists on its right to continue to use steel-jawed traps unless adequate alternative methods can be found.

Neil Buckley, Brussels

### AIRPORT MANAGEMENT

## British mission visits Mexico

A British mission representing 600 UK companies with expertise in airport management began a high-profile visit this week to Mexico, where 35 airports are to be privatised.

Mr Gil Thompson, president of the British Airports Group, said UK companies planned to bid aggressively for Mexican airport concessions. Dutch, French, Spanish and US airport management companies have also expressed an interest in the Mexican privatisation.

Mr Jorge Silberstein, privatisation co-ordinator at the transport and communications ministry, said guidelines for the airport sell-off would be published in September, with auctions beginning at the end of the year or the start of 1998.

Leslie Crawford, Mexico City

### SOUTH AFRICA TELECOMS

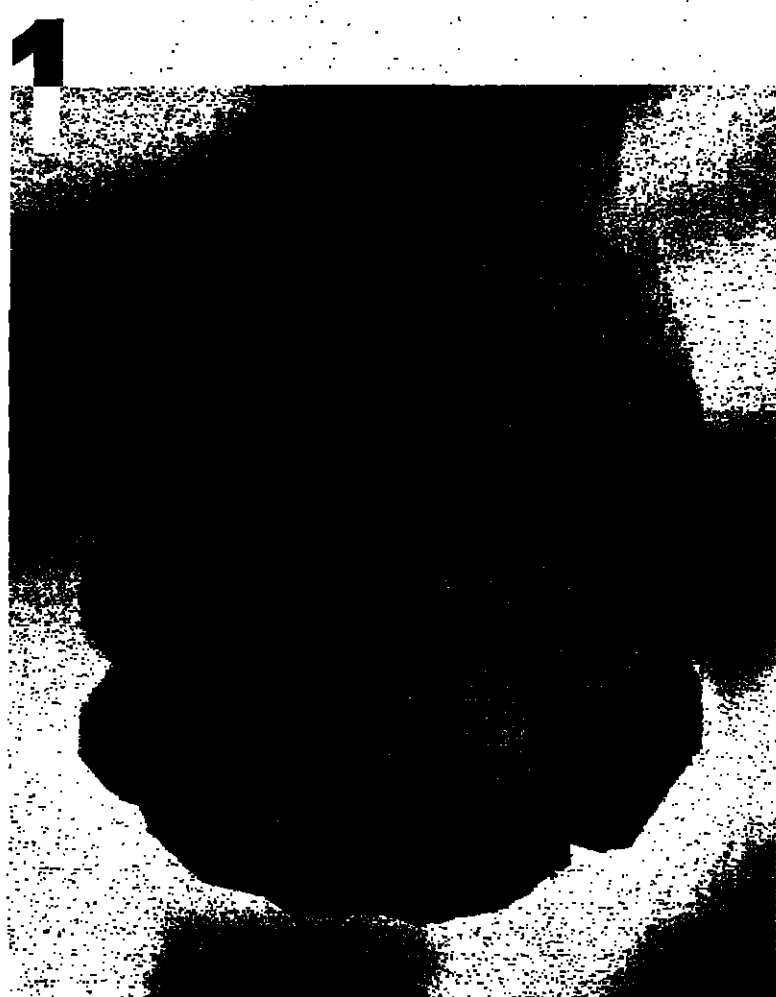
## AAT's big contract hopes

Alcatel Altech Telecoms, the Franco-South African company, said yesterday it hoped to win more than half of a giant R2bn (\$438m) radio technology contract from telecommunications utility Telkom. On Tuesday Telkom announced the tender award to AAT and Lucent Technologies of the US, but the exact split of the deal has not yet been decided. "We don't imagine it will be any less than 50 per cent for AAT and it could be more," said Bill Venter, chairman of Alcatel, the controlling shareholder of Altech, which owns 40 per cent of AAT.

The two-year contract is for the network planning, installation and supply of radio technology for 420,000 telephone lines in previously underserved areas of South Africa.

Reuter, Johannesburg

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# Siemens Nixdorf: User Centered Computing



## NEWS: THE AMERICAS

## Peru's armed forces enter Congress

By Alistair Scrutton in Lima

Peru's armed forces chiefs entered Congress late on Tuesday night as intense political upheaval seems to be forcing the government increasingly to rely on the military.

"Never before in the history of Peru have the armed forces entered the Congress," said Mr Javier Diez Canseco, a member of the opposition United Left party. "Not even during the wars of independence."

The head of the armed forces, General Nicolas Heredia Rios, along with almost 40 military officials, entered Congress after an invitation by the newly-appointed defence minister, Mr Cesar Saucedo, himself an army general. However they were forced to abandon attempts to address a closed

session after protests from the opposition and after they had objected to the use by Mr Diez Canseco of a cellular phone to speak live to a TV station.

The session was called to discuss the recent government decision to strip the popular owner of a television station of his nationality

## President Fujimori's approval ratings have hit their lowest level in seven years of government

because of "irregularities" in his papers.

The citizenship of Mr Baruch Ivcher, an Israeli-born naturalised Peruvian, was withdrawn only hours after his Frecuencia Latina TV station broadcast tapes alleging intelligence services had

illegally wiretapped 197 public figures, including dozens of journalists, politicians and judges.

The military officials who entered Congress, including the three heads of Peru's armed forces, reportedly had information linking Mr Ivcher to "secret business deals" with Ecuador.

"The evidence of Frecuencia Latina is inconsistent," said Mr Palermo, who argued that the tapes broadcast on Frecuencia Latina had come from privately-owned cellular scanners, not the intelligence services.

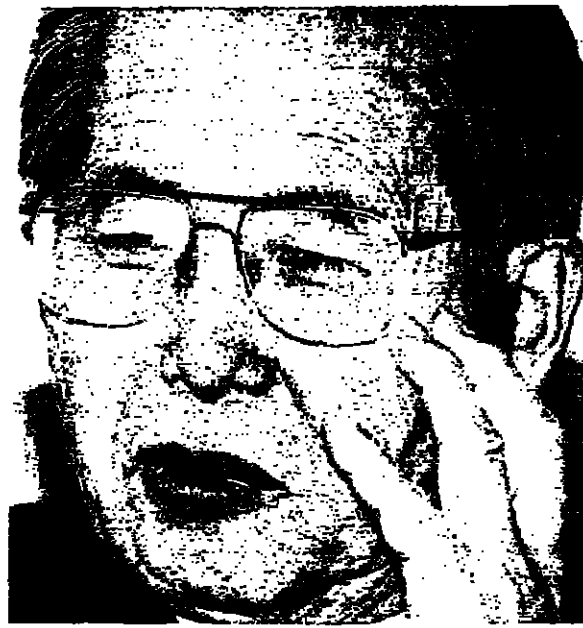
The developments have prompted street protests. Stock market prices fell and Mr Fujimori's approval ratings hit their lowest level in seven years of government.

The entry of the military

had followed a concerted attempt by President Alberto Fujimori's ministers to defend the government over the case and the wiretapping allegations. Cabinet ministers, including Mr Alberto Pandolfi, prime minister, and Mr Domingo Palermo, education minister, denied in Congress the government had listened to telephone conversations of opposition politicians and journalists.

"The evidence of Frecuencia Latina is inconsistent," said Mr Palermo, who argued that the tapes broadcast on Frecuencia Latina had come from privately-owned cellular scanners, not the intelligence services.

The developments have prompted street protests. Stock market prices fell and Mr Fujimori's approval ratings hit their lowest level in seven years of government.



President Alberto Fujimori: his ministers defended government over wiretapping revelations

## AMERICAS NEWS DIGEST

## Republicans refine plans

Republican congressional leaders yesterday began final talks with the White House on the details of their plans for balancing the federal budget by 2002. House and Senate leaders agreed late on Tuesday on a combined package of measures to take into the discussions with the Clinton administration.

These include a \$500 per child tax credit, reduced for poorer working families who already receive a tax credit, a cut in the main rate of capital gains tax from 28 per cent to 20 per cent, the indexing of capital gains for inflation, and a reduction in inheritance tax on large estates. It was also expected to include a rise in cigarette taxes to pay for more comprehensive child health insurance.

It was still unclear whether the final congressional plan would include a proposal, dropped by the Republicans on Monday, to charge extra premiums to high-income Americans for Medicare, the public health insurance system for the elderly.

Gerard Baker, Washington

## BRAZIL CORRUPTION SCANDAL

## Workers' party chief cleared

An investigation into a corruption scandal involving Brazil's leftwing Workers' party (PT) has exonerated the party's most important leader, Mr Luiz Inacio Lula da Silva, freeing him to run for the presidency next year. However the inquiry found several PT-run municipalities operated a "fraud scheme" and that a friend of Mr da Silva's, Mr Roberto Teixeira, had "abused his confidence".

The scandal had threatened to sideline Mr da Silva, one of the few politicians with any chance of beating President Fernando Henrique Cardoso in elections in October next year. Mr da Silva is now favourite to be the candidate of a group of leftwing parties. The inquiry followed allegations from a party activist that several PT municipalities had hired a company, CPEM, to falsify accounts in order to receive a higher share of government funding.

Geoff Dyer, São Paulo

## CUBA

## Man held after bomb attempt

Cuban police have arrested a man with a German passport after an incident in which an explosive device was thrown into a traffic tunnel under Havana Bay. Police arrested the man at the weekend and searched the room he was renting at Guanabo, a beach resort near Havana, his Cuban landlady said. Police took away a number of small boxes for investigation.

The incident followed small bomb blasts at two Havana tourist hotels on July 12, which slightly injured three people. Cuban officials think the explosions are part of a campaign by rightwing anti-communist exiles to damage the island's Cuba's industry.

Pascal Fletcher, Havana

## Horse trips up Chilean minister

By Imogen Mark in Santiago

The heavy winter rains in Santiago last month have washed out the political career of Mr Edmundo Hermosilla, Chile's housing minister. He resigned on Tuesday after admitting he had received the gift of a valuable horse from one of the ministry's biggest contractors.

The same contractor, Mr Francisco Perez Yoma, was responsible for building several blocks of low-cost housing in Santiago that leaked badly during the June storms. Since then the 7,000 families have been living precariously, their homes swathed in sheets of heavy plastic as temporary protection, while the ministry and the contractor wrangle in the courts over who was responsible.

Ironically, Chile's housing policy for low-income groups had been one of its most successful social initiatives. In May, President Eduardo Frei congratulated the ministry for building half a million new homes in the past three years. But the "nylon homes", as the local press calls them, have been criticised for their low quality.

Mr Hermosilla's fellow ministers and other members of the Christian Democrat party to which he belongs rallied to defend his record. "Everyone takes presents," said one Christian Democrat congressman. Mr Hermosilla himself, when he was first asked about the horse some weeks ago, reproved the journalist for asking a question "in very bad taste". In his resignation speech he insisted that he "never mixed personal matters with professional or ministerial responsibilities".

President Frei, however, apparently took a more critical view. Accepting the minister's resignation, he commented that "there has never been any legislation about accepting presents... [but] the government is looking at issuing regulations [to cover it]". The unlucky homeowners, beneath their flapping plastic sheets, had no doubts, either.

A banner stretched across one of the blocks asked: "Minister, if we give you two horses, will you give us new homes?"

## Greenspan's tone positive for markets

By Gerard Baker in Washington and John Labate in New York

Mr Alan Greenspan, chairman of the US Federal Reserve, yesterday repeated his upbeat message about US economic prospects, appearing to give a green light to the continuing bull market in equities and bonds.

As the Fed chairman gave the second day of his Humphrey-Hawkins testimony to Congress on the central bank's semi-annual assessment of the US economy, economists were broadly agreed that his tone was extremely positive for financial markets.

Stock and bond prices, which soared on the chairman's remarks on Tuesday, moved higher again yesterday. At noon the Dow Jones

Industrial Average was up 42 at 8,104. The Treasury's benchmark 30-year treasury bond held on to Tuesday's gains, with the yield steady at 6.41 per cent.

Mr Greenspan continued to give comfort to financial markets yesterday, suggesting consumer price inflation remained subdued, even as unemployment was near a 25-year low.

"Alan Greenspan is bullish on America. His latest round of Humphrey-Hawkins testimony was the most positive assessment of the US economy he has ever delivered," said Mr Bruce Steinberg, chief economist at Merrill Lynch, the New York investment bank.

"Greenspan is willing to try this experiment of low unemployment and low inflation right before our

eyes," said Mr Elliott Platt, director of economic research at Donaldson, Lufkin, and Jenrette, the brokers.

Conspicuously, Mr Greenspan did not use the second day of his testimony to remove any of the shine from the markets' reaction to his first day's comments. In the past he has often slightly shifted emphasis on the second day if he believes markets may have misinterpreted him.

In his prepared statement on both days, Mr Greenspan not only avoided repeating his warnings of last winter about the dangers of "irrational exuberance" in the stock market, but he seemed more open to the possibility that the surge in asset prices in the last year or two might have been justified by a fun-

damental change in the economy.

"Soaring prices in the stock market have been fuelled by moderate long-term interest rates and expectations of investors that profit margins and earnings growth will hold steady, or even increase further in a relatively stable, low-inflation environment," he said.

He went on to suggest these expectations might be justified by recent signs that a combination of technological change, and globalisation of the US economy, might have shifted long-term US growth potential upwards.

On the immediate outlook, the Fed chairman's bullishness also helped markets. There was no repeat of his warning in his last testimony in February about the possible need for a pre-emptive

strike against inflation. That warning was followed by a quarter point rise in interest rates four weeks later. The reaction in the fixed-income market even suggested investors might be expecting that the next move in interest rates might be down, not up.

But some analysts were concerned investors had over-reacted to the testimony, ignoring some of Mr Greenspan's more cautionary remarks. "The Fed is far from complacent and Alan Greenspan himself seems to think a policy tightening in the future remains much more likely than an easing. Given this sentiment it is hard to fathom the market reaction," said Mr Christopher Low, economist with HSBC in New York.

Lex, Page 12

## US mutual funds look to export markets

## Fears over mutuals 'overstated'

US mutual fund companies seem finally to have found a way to export their products.

Last month saw three significant links between US fund managers, flush with their success in selling retail mutual funds and corporate pension funds to the American "baby boom" generation, and overseas financial conglomerates keen to replicate some of the success in their domestic markets.

Early in June, Nippon Life of Japan, the world's largest life insurer, signed a joint venture with Putnam Investments of Boston to manage funds worth \$90bn (\$892m), and to train its employees in the art of servicing and selling mutual funds in the American market.

The month ended with a similar deal. Sumitomo Life, the third largest Japanese life group, linked with Franklin/Templeton of San Francisco, another of the largest and most successful US fund groups. To an even greater extent than Putnam, Franklin/Templeton has a reputation for specialising in emerging markets.

And at the end of last month, the New York firm of Scudder, Stevens & Clark was acquired by the Zurich Group of Switzerland. Scudder, which is privately held, maintained a large stake in the operation, and made clear the main aim of the deal was to allow it to compete internationally, particularly in Europe.

July started with another big tie-up, as Alliance Capital, a large New York-based

manager which is part of the Equitable group of companies, announced its own joint venture, offering asset management for funds sold in Brazil, and eventually Argentina, by BCN, a Brazilian retail bank. Alliance is managing funds worth \$1.1bn initially, and will also use the venture to help its Brazilian research effort, offering Latin American funds in the US.

The flurry of activity is significant, because the US fund industry's attempts to move outside its own borders have so far been largely unsuccessful. In the US, growth of mutual funds - open-ended collective investment funds - has been phenomenal. Each month, new investments exceed redemptions from the funds by an average of more than \$30bn.

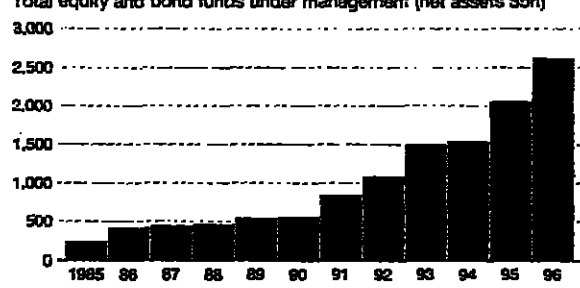
Fund groups have been helped by the extended "bull market" in US equities of the 1990s, and by demographic factors, with the post-war "baby boom" generation now approaching retirement and saving heavily. These factors are not replicated exactly outside the US.

But they have also made at least two product innovations which could be copied overseas. First, fund companies have persuaded US investors to buy mutual funds direct, over the internet or toll-free numbers, the way they would buy a "commodity" product such as motor insurance, or make transactions in their current account.

Second, corporate pension

## Mutual funds conquer the US

Total equity and bond funds under management (net assets \$bn)



Net flow to equity and bond funds per annum (net sales \$bn)



Source: Investment Company Institute

plan administrators now typically allow their employees to put their pension cash into mutual funds through so-called "401(k)" plans, and fund managers have developed highly sophisticated systems to serve them.

With emerging markets now reaching the stage where employees want to save, and many established state social security systems facing the need to switch to the US pension model, US fund groups believe they now have an opportunity to export their expertise. But to date most US companies have found expansion surprisingly difficult.

There is also controversy within the industry over whether expansion should be attempted organically, via joint ventures, or by taking direct equity stakes.

Alliance Capital has pursued international expansion more energetically than many, with offices in 17 countries and total funds outside the US of about \$23bn. But Mr David Williams, its president, said the company was still "up against it".

He said: "American firms are somewhat disadvantaged because we are all structured along specialist lines. A traditional pension fund in

Britain, for example, is a global balanced account with a UK equity bias."

Selling direct to the public is also a problem for the US, because of the different distribution systems. "Banks in Europe have a hammer-lock on the market, and so far they've been loath to distribute products not managed by themselves." Elsewhere, the problem is the lack of an established "broker-dealer" network to serve investors and distribute products, although Japan comes closest to being an exception.

Some US fund managers distribute direct to the public, led by Fidelity Investments of Boston, which became the world's largest fund manager on the back of the tactic. But Mr Williams describes this approach as "prohibitively expensive".

Few apart from Fidelity itself, which has now built an influential position in the UK market without approaching the dominance it enjoys in the US, have the resources to attempt it.

Hence Alliance Capital's solution of forming alliances in emerging markets. According to Mr Williams: "In the least developed markets we've chosen to try to create exclusive arrangements with a financial institution which we perceive to have distribution capability."

Alliance Capital has already used this strategy to link with a bank in Poland.

Other companies have rejected the joint venture. According to Mr Edmond Villani, chief executive of

Scudder: "We have pursued a number of joint ventures in Asia and Latin America with large commercial firms which clearly have an investment expertise. But in all cases the strategic shortcomings persuaded us that it was not the way to build a global asset management business."

He pointed out that training foreign staff often involved tying up precious resources, and that such ventures were often made from a position of weakness - "one side doesn't have distribution, the other doesn't have fund management".

Once a venture is well established, it is easy for the two partners to become competitors, he adds. However, Mr Villani, like others in the industry, has great confidence for the future: "We begin with the premise that the arguments for mutual funds are compelling. It took a long time for that to be accepted in the US."

In the long run, he says, growing realisation by consumers of the need to put at least a little money into the stock market, and changing pension policies, should ensure the industry's international expansion: "Outside the US we firmly believe funded pension systems will emerge. That could be a stimulus for the development of equity capital markets. That's why we are doing this."

John Authors

## Venezuela watchdog irks investors

The decision this week by Venezuela's telecommunications watchdog to block the country's two cellular telephone companies from taking on new customers highlights the difficulties investors are facing in a transition to a market economy.

The two companies, Telcel and Movilnet, were told that excessive demand appears to have caused a deterioration in service and were ordered to sort out the problem before expanding their customer base.

But industry analysts see the decision as part of a wider problem of inadequate regulations and arbitrary government decision-making. These have contributed to investor uncertainty when whole areas of business are opening up for the first time.

Earlier this year the telecommunications regulator, Conatel, delayed a contractual rate increase for the

telecommunications company CanTV on the excuse of inadequate information on the company's cost structure. Analysts suspected attempts to renege on the previously agreed rate formula. In the transport and power sectors, companies

rate in half. It is now negotiating to subsidise the difference. "It defeats the purpose. Why have a concession if you're going to subsidise in the end?" asked Mr Phelps.

Yet problems are not limited to low rates. Inadequate legislation and untrained

regulators add to the frustration of operators. An April tender held by Conatel for a rural telephony contract was shrouded in controversy and legal uncertainty.

The Venezuelan-American chamber of commerce says the recent controversy between Conatel and private companies in basic and cellular telephony has overshadowed the positive investment climate in the country. "It brings with it an apparent disorder and indifference that could inhibit foreign investors."

The underlying problem seems to be that regulating agencies make decisions on political rather than technical grounds. "It's a cultural thing. The concept of a regulator here is that of a protective parent," said Mr Robert Bottomo, head of the consultancy Veneconomia.

Others attribute the remnants of populism to the survival of hardliners in ministries unwilling to give up power.

Mr Freddy Rojas Parra, minister of industry and commerce, defends the government's policy, saying that investors are expecting too much too quickly.

"We've made enormous progress in adjusting rates and prices but there's also a very large backlog," Mr Rojas adds that the government has already paid a high political price as a result of important rate adjustments

over the last 18 months. Once consumer purchasing power recovers from the impact of last year's austerity measures and from a five-year recession, remaining price controls will be removed and rates adjusted, he said.

One area where there have been improvements is in the banking sector. Following the 1994 financial sector crisis, the superintendency of banks has regained the confidence of foreign investors, while ensuring more safety, transparency, and public information.

"It's a slow process but the government appears to have realised the importance of establishing clear rules of the game and strengthening the agencies that enforce them," said Mr Luis Soto, head of the private public investment promotion agency Canapi.

Raymond Collett

## CONTRACTS &amp; TENDERS

## MANCHESTER AIRPORT PLC

## TERMINAL EXTENSIONS

## CONTRACTS FOR ENGINEERING SERVICES MAINTENANCE AND THE PROVISION OF SECURITY SERVICES

Manchester Airport will be opening Terminal 1 East in May 1998 and now invites companies for inclusion on the tender list for the following contracts:

## CONTRACT No. 1

## PROVISION OF ENGINEERING SERVICES MAINTENANCE

This single contract will cover mechanical systems, electrical distribution systems at 240V and 415V as well as baggage handling systems, CCTV, public address, lifts, escalators, passenger loading bridges, information display signs and monitors, standby generation, UPS and security equipment.

## CONTRACT No. 2

## PROVISION OF SECURITY SERVICES

This single contract will cover the provision of static guards, passenger screening and access control. Service providers must have formal legislative approval to carry out these services and meet UK DETR Category 4 standards or equivalent EC standards.

## GENERAL

Both contracts will be for a period of approximately 3 years. In addition for each contract Manchester Airport PLC will require one party to undertake single point liability for the provision of services. Guarantees and performance bonds may be required and applicants may be requested to attend an interview.

Interested parties are requested to supply 3 copies of information containing details of the company profile and in-house capacity to provide the relevant service with particular reference to legislative requirements, customer care and peak time operational requirements. The information should also contain a profile of the contractors company structure in relationship to any subsidiary, associate, parent or ultimate holding company, together with a list of directors, management and administrative staff and technical support staff by discipline.

A summary should also be given of recent relevant projects for the provision of services on a live airport or similar environment including: who within the company was responsible including key site and head office staff.

Interested parties should also submit indicators from the contractors last 3 years audited financial accounts which show for each year, capital gearing ratio, current ratio, acid test ratio, pre-tax profit, return on capital employed, identification of annual turnover and current account balance. Contractors may be requested to submit additional information at a later stage.

Applications to be included on the tender list should be submitted to the Administration Manager, Ground Floor, Olympic House, Manchester Airport PLC, Manchester M90 1QX by 18 August 1997 at the latest.

صكا من الامل



# Israeli cabinet tackles budget deficit

By Judy Dempsey in Jerusalem

The Israeli government yesterday agreed a Shk600m (\$223m) cut in this year's budget despite opposition from Mr Yitzhak Mordechai, the defence minister, and four other ministers.

The 1.1 per cent cut, affecting all but three of the 18 ministries, is intended to reduce the budget deficit to 2.8 per cent of gross domestic product.

But finance ministry officials said the deficit would

probably be closer to 3 per cent as growth in the economy slows to about 2.5 per cent compared to 4.4 per cent in 1996.

The cuts are in two parts: the general operating budget will be reduced by Shk600m, while a further cut of Shk200m was needed to make up for Israel's agreement to transfer \$50m of US aid to Jordan and Shk20m to fund the distribution of gas masks to the public.

The ministers have until next week to explain how

they will implement the cuts.

Officials said yesterday they were confident the package would be accepted by parliament.

"These cuts are a good signal," said Mr Eli Nacum, chief trader at Zamek Securities. "It shows that the new finance minister is determined to stick to a tight fiscal policy in line with the Bank of Israel's tight monetary policy."

Mr Yaakov Neeman, appointed finance minister this month following the res-

ignation of Mr Dan Meridor who found it impossible to work with Mr Benjamin Netanyahu, the prime minister, has quickly established his credentials as a tough negotiator. By cutting the defence budget by 0.6 per cent, "he has shown there are no sacred cows left," said Mr Nacum.

Mr Mordechai, who declined to attend the cabinet meeting, sitting in a separate room in the prime minister's office throughout the marathon session, had wanted an additional

Shk1.5bn in spending. Instead, he is now saddled with finding ways of cutting defence spending by Shk205m.

Mr Netanyahu, who appears to be putting finally in place a consistent fiscal policy and his privatisation programme, said it was necessary to press ahead with the cuts given the slowdown in the economy as well as the fall in immigration which is expected to decrease from last year's 71,000 to 63,000 this year.



Neeman has shown there are no sacred cows left

## INTERNATIONAL NEWS DIGEST

### UK and France in Africa pact

Britain and France yesterday agreed to join forces to promote democracy and economic development in Africa, and to co-operate in restraining arms sales.

The agreement, reached at talks in London yesterday between Mr Robin Cook, the UK foreign secretary, and Mr Hubert Védrine, France's foreign minister, follows the arrival in power of socialists in Europe's two biggest ex-colonial powers and its largest weapon exporters. Mr Cook has promised to give human rights more weight in UK foreign policy, while the socialist government in Paris is distancing itself from France's recent record of backing dictators like ex-president Mobutu.

The two ministers discussed the idea of a European arms exporters' code of conduct so that if one exporter refused to sell to a particular country, others would not grab the business.

David Buchan, London

#### ALGERIAN VIOLENCE

##### Extremists kill family of 15

A wave of killings in Algerian villages has left dozens of people dead in recent days, according to local media reports. In the village of Yemma M'guita, in the wilaya (province) of Blida, 38 people, including a family of 15, were killed, according to Le Matin, the French daily. In Benachour, also in Blida, four women and three men had their throats slit, while a third attack was reported near the town of Souk el Ghoslane, east of Blida, in which nine men were killed. A newspaper close to the presidency said this week a massive army sweep in Hattaba, west of Algiers, had led to the killing of 90 militants.

Algeria announced yesterday that local elections would be held on October 23.

Roula Khalaf, London

#### GENOCIDE IN RWANDA

##### Belgian journalist arrested

The United Nations Rwanda genocide tribunal yesterday netted its first European suspect - a far-right Belgian journalist who worked for Radio Milles Collines in Kigali.

Mr Georges Rugeiru, who is alleged to have made broadcasts urging Hutus to eliminate Tutsis and political moderates in 1994, was arrested by Kenyan authorities. Scores of Hutu suspects have been rounded up in Kenya following a fence-mending visit to Nairobi by Major Paul Kagame, Rwanda's military strongman.

Michela Wrong, Nairobi

#### HUMAN RIGHTS IN SAUDI ARABIA

##### US is 'failing to speak out'

The US government was criticised yesterday for failing to speak out against human rights abuses in Bahrain, a major naval port for US forces in the Gulf. Human Rights Watch urged the US and UK to use their military and political ties to put pressure on the ruling Al Khalifa family. A report by the US-based human rights campaign group said wide-scale government and security forces violations of the civil and political rights of Bahrainis were a major factor behind nearly three years of unrest, which has led to bomb blasts and rioting. The Gulf banking centre's Shia majority has been demanding political reforms from the Sunni rulers.

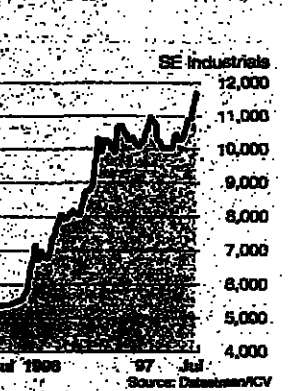
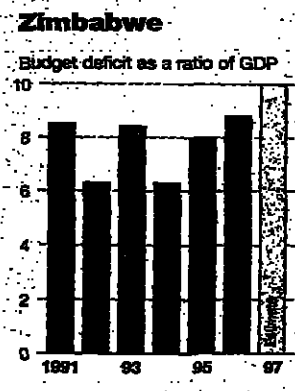
Roula Khalaf

# Zimbabwe prepares tough budget medicine

Tony Hawkins on the delicate challenge of restoring stability to an ailing economy

Zimbabwe's finance minister, Mr Herbert Murerwa, will have a mountain to climb when he presents the 1997 budget today.

Not only must he seek to restore economic stability to a country with real incomes down 16 per cent since 1991, rapidly growing unemployment, 23 per cent inflation, interest rates of at least 27 per cent, a budget deficit at more than 10 per cent of GDP and an overvalued exchange rate, but he must win the approval of the International Monetary Fund and negotiate a structural adjustment loan.



demonstrations for the next fortnight. Employers have been granting pay increases of 25 per cent to 40 per cent - and in one reported case as much as 70 per cent. Electricity tariffs have been increased by 136 per cent, spread over three years.

Against this inflationary background, a credible budget will require a blend of spending cuts and tax increases. In May, Mr Murerwa revealed that the budget deficit for the year to June 30 was likely to be 11.4 per cent of GDP compared with the previous year's 10.1 per cent and a targeted 8.5 per cent.

In last year's budget, the finance minister also predicted that inflation would slow to 13 per cent by mid-1997. In fact, it has barely changed over the past year, averaging 19 per cent.

Now, sharply higher fuel and energy prices, rapid monetary expansion and wage awards way above productivity growth seem almost certain to push inflation into the high twenties later in the year. This could force the central bank, which until April was committed to lowering rates, to raise its discount rate from the current level of 25 per cent, with a subsequent further increase in bank lending rates.

On the positive side, the combination of strong economic growth - 6.7 per cent last year and an estimated 4 per cent in 1997 - plus escalating inflation itself will boost budget revenues. "Smoke and mirrors" will also come to Murerwa's aid in the form of the revaluation of GDP. This, in turn, should reduce the budget deficit ratio from his May forecast of 11.4 per cent of GDP to something closer to 10 per cent.

Even so, the recent civil service wage award will leave the budget deficit standing at around Z\$13bn.

Mr Murerwa is not short of advice on how to reduce this. The IMF reportedly wants him to increase energy taxes substantially; raise taxes on beer and tobacco; force civil servants to pay higher pension contributions; and cut government grants. Other suggestions include increasing prices for

state services, retrenching more people from the uniformed services (including the police force), and the imposition of a land tax which could bring in upwards of US\$100m.

The practicality of some of these suggestions is questionable. Levying a land tax is likely to require a good deal of preparation, while the IMF's suggestion that Zimbabwe should reduce the size of its police force suggests that it rejects, or disregards, the World Bank's 1997 report on the importance of institutional capacity in the development process.

Nevertheless, the IMF's budget proposals are intended to save - or bring in - an extra Z\$6bn (about 4 per cent of 1997/98 GDP). This, coupled with additional privatisation revenues, might make it possible to bring the deficit down to levels which the IMF could recommend, with a moderately straight face, to donors and lenders.

Even so, Mr Murerwa's task is an unenviable one. If he produces the tight fiscal budget the country needs, he will probably exacerbate inflation in the short-term, while alienating both the business community and the public.

The budget, moreover, comes at a time when the

electorate is becoming increasingly disillusioned with the government. In recent months, President Robert Mugabe's administration, now in its 18th year, has been hit by a series of embarrassing revelations surrounding the award of cellular telephone licences; the contract for the new Harare international airport terminal (won by a company in which the president's nephew is prominent); housing loans to senior government officials and politicians; and a scandal over payments by the War Veterans Fund.

At the weekend, cabinet ministers were howled down by angry war veterans and forced to flee a public meeting via the back door - in spite of offering pension payments that will cost the taxpayer Z\$840m a year to 70,000 war veterans. This, and recent industrial unrest, indicates that the electorate's patience is wearing thin.

But while there is no viable political opposition waiting in the wings, and no elections for three years, the government's recent conduct suggests it still prefers the high inflation climate to the tough fiscal measures necessary to reverse the fiscal follies of the last decade.

Perhaps Dr Murerwa will find the courage to break the mould.

## SIEMENS

# Communications and Information drive growth

International markets continue to boom

**Information for Siemens shareholders**

During the first nine months of the current fiscal year, the communications segment and Siemens Nixdorf Informationssysteme AG (SNI) continued to drive growth at Siemens. The components segment also gathered momentum following a slow start at the beginning of the year. Buoyant business in the Americas and Asia-Pacific more than compensated for a light decline in Germany.

Orders	DM billion	82.8	+ 14%
German business		27.2	- 2%
International business		55.6	+ 23%
Sales	DM billion	71.2	+ 10%
German business		24.9	- 1%
International business		46.3	+ 18%
Employees (30/6/97)	'000s	386	+ 2%
German operations		200	- 1%
International operations		186	+ 6%
Capital expenditure and investments	DM billion	6.9	+ 28%
Net income after taxes	DM billion	1.705	+ 3%

Growth was again generated exclusively by international business, where the double-digit increase was favored nearly four percentage points by positive currency translation effects and around three percentage points by the first-time consolidation of new companies. Business in Germany, in contrast, edged off slightly. International business accounted for 67% of the total orders.

Siemens profited from the continuing strong economies in North and South America, pushing up orders

26% to DM16.5 billion. In the U.S. alone, business rose 20% to DM10.7 billion, compared with DM8.9 billion last year. The Asia-Pacific region continued to show dynamic growth as orders soared 45% to DM11.5 billion. Outside Germany, business in Europe also flourished, with orders climbing 13% to DM22.9 (1996: DM20.2) billion.

The communications, transportation, and information segments again posted double-digit growth as their international business continued to boom. Health care and components returned to higher growth rates; Semiconductors gathered momentum again with double-digit growth. Medical Engineering's international business more than compensated for stagnating domestic demand.

While the company's international workforce increased largely due to the first-time consolidation of new companies, the domestic workforce was reduced through divestitures and spin-offs. Net income was DM1.705 billion. Lower earnings in Semiconductors, Medical Engineering and Transportation Systems were offset by higher income in most of the other operating groups.

Additional information is available on the Internet: <http://siemens.de>.

Note: In accordance with German legal requirements, the information contained in this Interim Report has not been audited. Copies of the Interim Report are available from S.B.C. Warburg, attn: Mr C. Ward, 2 Finsbury Avenue, London EC2M 2PP on request.





Charging students \$1,600 a year for learning is accepted as only long-term solution to 'crisis'

## Ministers end free university tuition

By Simon Targett,  
Education Correspondent

The government yesterday took the historic decision to end free tuition in UK universities, prompting signs of the first backbench revolt to the Labour government.

Mr David Blunkett, the education secretary, ordered the end of free higher education for all after accepting recommendations from an advisory committee that charging students £1,000 (\$1,670) per year tuition fees was the only long-term solution to the "crisis" in the university sector.

The proposals are contained in a long-awaited review of higher education led by Sir Ron Dearing.

Sir Ron's report, published yesterday, calls for the biggest shake-up in the university system for 35 years. It makes recommendations to charge tuition fees, expand student numbers and introduce basic "threshold" standards for all degrees.

The government, in a quickfire response, welcomed the report as "coherent and thoughtful". Mr Blunkett promised there would be a white paper in the autumn.

But Mr Blunkett rejected Sir Ron's preferred option for student contributions, choosing a repayment system which, while raising more money for universities, would leave students from poor families with debts of over £10,000 - £20,000 more than wealthy students.

He also side-stepped Sir Ron's plea that the effects of planned cuts in university funding over the next two years - which Sir Ron said "would damage the quality and effectiveness of higher education" - should be alleviated by a £70m injection of public funds.

The announcement to charge tuition fees prompted Lord Glenshara, a Labour education secretary under Harold Wilson, a former prime minister, to threaten to resign the Labour whip. He said he was "ashamed" of the government's proposals.

Mr Ken Livingstone, another leading Labour leftwinger and the Brent East MP, said he would vote against the proposals. He said he believed 70 per cent of Labour backbenchers shared his view, but that the party's tight discipline would see most toe the party line.

Senior sources indicated that the opposition Conservative party would vote against tuition fees, although Mr Stephen Dorrell, the shadow education secretary, is likely to attack the form in which the government proposes them rather than the principle.

In a report presenting a vision of higher education for the next 20 years, the Dearing committee said the government should lift the cap on student numbers.

It would like to see 45 per cent participation rates, and anticipates that an extra 300,000 undergraduates could enter higher education each year by 2015.

The committee also said the government should underpin academic standards, which employers think have slipped in recent years, by establishing a national pool of expert external examiners and by laying down basic "threshold" standards for all degrees.

Mr Blunkett said the government had "taken Sir Ron's recommendations and built on them". It acknowledges universities are underfunded, claiming it would cost the taxpayer £600 by 2015 to increase participation and restore the level of funding students enjoyed in the 1970s.

### UK NEWS DIGEST

## Hopes rise in airline dispute

Hopes of a settlement in the British Airways dispute rose yesterday after managers and cabin crew representatives engaged in talks, two weeks after a three-day strike severely disrupted services. Representatives of the TGWU transport union met managers for several hours at Heathrow airport with Acas, the conciliation service. Union leaders tabled their written proposals on how BA could trim £42m (\$70m) from its cabin crew costs.

A joint statement said last night: "Talks between British Airways and the TGWU concerning the cabin crew dispute are continuing with the assistance of Acas, and both parties have agreed that no further statements should be made until these talks are concluded." Both sides seemed confident they could agree on the savings, part of the airline's £1bn efficiency programme.

Mr Bob Ayling, BA chief executive, said: "We will need time to fully evaluate the proposals and if they meet with the approval of everyone, including the cabin crew themselves, then BA will seek to move matters forward as quickly as possible."

Andrew Bolger

### STERLING STRENGTH

#### Steel chief attacks government

Sir Brian Moffat, chairman and chief executive of British Steel, yesterday criticised the government for failing to do enough to stem the rise in sterling. Sir Brian said at the company's annual meeting: "We support the government's battle to keep inflation at low levels but believe it is unrealistic to put virtually all the pressure for these actions on interest rates when governments of other EU member states are using fiscal policy rather than interest rates as their response to the threat of inflation."

Sir Brian warned that sterling's strength was putting pressure on the company's margins and impairing the competitiveness of many of its UK customers, who were exporters. The threat to exports would in turn bring further threats to jobs, he said. British Steel was last year the UK's fourth biggest exporter, with exports of £2.7bn (\$4.50bn).

Stefan Wagstyl

### MONETARY UNION

#### National debate urged

The Trades Union Congress yesterday urged the government to lead a national debate on European monetary union and welcomed the positive shift of emphasis by the Confederation of British Industry, which this week advised the government to make an early pledge to take Britain into Emu. Mr John Monks, general secretary of the TUC, said the argument about Emu shifted in favour of British entry with each upward jolt in the value of the pound. The TUC called on the government to help bring down the value of sterling to a "realistic and competitive" rate of near DM2.50 compared with its present level of DM3. It said the high level of the pound was "already having a damaging effect on the export sector... with an overvalued currency threatening major job losses in many of the export industries". Mr Monks said: "We are now attracting hot money because of a combination of high interest rates and the fact that we are unlikely to be in the first wave of membership of Emu. If the project goes ahead on time."

Andrew Bolger

### STOCK EXCHANGE

#### Electronic trading plan approved

One of the last hurdles to introducing electronic order-driven trading of FTSE 100 shares was cleared yesterday when the plan drawn up by the London Stock Exchange was approved by the Securities and Investments Board, the main regulator in the City of London. But SIB warned that if the exchange's regime for trading blocks of shares away from the order book led to the main market being undermined, it would press the exchange to introduce fresh incentives for its use.

Order-driven trading, under which investors and brokers can place bids and offers for shares on an electronic order book that will appear on all traders' screens, is due to be introduced by the exchange on October 20.

The government's plans to bring the regulation of UK financial services under one roof took shape yesterday with confirmation that the planned super-regulator would also take responsibility for insurance and mutually owned savings and loans institutions.

John Gapper

### DEVOLUTION

#### Rethink pledged on Scottish MPs

The government will today pledge to look again at Scotland's over-representation of MPs in parliament - 72 out of 659 - as it launches the most significant part of its proposed overhaul of the UK constitution. A policy paper on devolution will set out the transfer of legislative and administrative powers to a new parliament in Edinburgh, which is almost certain to be approved by voters in Scotland in a referendum on September 11. It will make clear that responsibility for negotiating with the European Union will remain firmly in the hands of ministers based in London.

John Kampfner

### BEEF CRISIS

#### Sharp fall in number of BSE cases

A sharp fall in cases of "mad-cow" disease among cattle was reported in the latest progress report on BSE from the agriculture ministry. The report said "a continued improvement is expected for the future". The number of clinically suspect cases at June 30 this year was 56 per cent lower than the same time last year and 70 per cent down on 1995.

Mr Jack Cunningham, the government's chief agriculture minister, said the figures showed "the measures taken so far are having a dramatic effect on numbers of BSE cases".

Maggie Urry

## Cost of college degree could hit \$13,000

By Simon Targett,  
Education Correspondent

Students face flat-rate tuition fees of around £1,000 (\$1,670) from next year under proposals which, added to loans for maintenance, would push the cost of a three-year degree course to around \$8,000.

But Sir Ron Dearing's committee said elite "ivy league" universities should not be allowed to charge higher fees, although it did not rule them out as a long term option.

It also warned the government against raising the tuition fee contribution without parliamentary approval.

The widely leaked recommendation, which would mean the end of free higher education for all, is seen as the best way of rescuing universities from a dire financial crisis.

According to the committee, the sector requires an additional £350m in 1998-99 and £565m in 1999-2000. This additional annual funding requirement is expected to rise to nearly £2bn in 20 years.

Tuition fee contributions - calculated at 25 per cent of

the real tuition costs - are expected to produce £350m after the first year, rising to £500m after 18 years.

To boost the university sector's short-term financial needs, the committee is also asking government to reduce planned spending cuts, put at 6.5 per cent over the next two years.

If these go ahead, the sector could be seriously damaged, the committee warns. It recommends a 2 per cent cut over two years, which would require additional funding of just over £100m in 1998-99 and £270m in 1999-2000.

The committee's decision to recommend tuition fees is justified by evidence showing that graduates receive salaries between 11 and 14 per cent higher than non-graduates.

It also says that students will become more demanding of institutions, forcing up standards; that it would help to level the playing field between full and part-time students; and it would mean there was a clearer expectation that the funding released should be reinvested in higher education.



Student demonstrators outside the House of Commons protest against Sir Ron's report

**The fees plan is justified by evidence that graduates get salaries 11-14% higher than non-graduates**

Graduates in work would pay back an income-contingent government loan through the Inland Revenue, the tax collection agency,

which was selected because it already has arrangements for assessing income and securing payments from almost all of the working population.

The Revenue would collect the loans on behalf of a newly-formed Student Support Agency which would streamline the number of student support bodies. This currently exceeds 180.

This "graduate commitment scheme" would be similar to the contribution schemes in Australia and New Zealand. But unlike those, the UK government

would not be allowed to increase unilaterally the proportion of tuition costs paid by graduates.

The committee says such a change should not be allowed to take place without an independent review and the assent of both houses of parliament.

The money accruing from tuition fee contributions could be seen in filtering through the system. To remedy this, the committee suggests discounts for up front payment or a modest real rate of interest on loans to encourage those who can afford it to make a contribution at the time of study.

## NI talks in doubt as arms plan is rejected

By John Murray Brown in  
Belfast and John Kampfner  
in London

The government's proposals for paramilitary arms decommissioning in Northern Ireland were rejected yesterday by the region's three main pro-British unionist parties, casting doubt on the prospects for talks in September aimed at bringing them together with Sinn Féin, the political wing of the Irish Republican Army.

With the fringe "loyalists" also abstaining from yesterday's vote at the multi-party talks, the UK and Irish governments said they would be inviting parties to bilateral consultations during the summer to try to ensure the start of substantial negotiations on Northern Ireland's future.

The document the parties rejected calls for the paramilitaries to "consider" taking their weapons out of commission in parallel with progress in the talks.

The Ulster Unionists, the province's largest party, insisted they would stay in

the negotiations. But the hard-line Democratic Unionists and the small UK Unionists said they were quitting.

Ms Mo Mowlam, chief Northern Ireland minister in the UK government, said her determination to start in September was "beyond doubt". Mr Ray Burke, the Irish Republic's foreign minister, warned that no one would be allowed to block the process.

Ms Mowlam, due to meet Mr Burke in Dublin, the capital of the republic, on Tuesday, said the two governments would take "all the necessary steps" to ensure the talks started on time.

Earlier Mr Mitchell McLaughlin, chairman of Sinn Féin, warned that if unionists were allowed to hold back progress it would "spell for all of us a return to the conflict we were happy to leave behind".

Mr Gary McKinnel, of the Ulster Democratic party, linked to "loyalist" paramilitaries, accused the DUP of "bolting for the door with the first sight of the enemy".

In the House of Commons, Mr Tony Blair, the prime

minister, denied the government had shifted its position on decommissioning to accommodate republicans.

Responding to the first public stirrings of concern from the opposition Conservatives, the prime minister said that while welcoming the IRA ceasefire the government was "not the slightest bit dew-eyed" about it and understood the cynicism felt by some in Northern Ireland.

Mr Blair was asked by Mr William Hague, Conservative leader, to undertake that "there will be no question of substantive negotiations with Sinn Féin proceeding without early parallel decommissioning of illegal terrorist weapons".

Mr Blair responded that his stance had not changed: "It is our desire to see decommissioning during the course of the negotiations." He rejected suggestions that, with the Anglo-Irish paper failing to achieve sufficient consensus at the talks, the government was preparing to impose a solution over the heads of the political parties.

By Liam Halligan  
and Jimmy Burns

The official cause of the Chinook helicopter crash, which killed 25 Northern Ireland intelligence experts in June 1994, was yesterday called into question by the new defence committee.

In a private meeting, the House of Commons committee agreed to ask the Ministry of Defence for more explanation of the Royal Air Force's verdict - that the crash on the Mull of Kintyre in Scotland resulted from "gross negligence" by the two pilots - in the light of strong objections from ex-RAF servicemen and a Scottish sheriff's report that the causes remained "unclear".

In a separate development, the National Audit Office, the public spending watchdog, has received information raising questions about the way an updated version of the Chinook was re-introduced to service prior to the crash, after a refit by Boeing, its US manufacturer.

The NAO is considering examining evidence from

Chinook flight trials as part of a forthcoming investigation into MoD procurement.

Mr Michael Tapper, the father of one of the dead pilots, hopes that both the NAO and the committee will examine the fatal accident inquiry of Sir Stephen Young, a Scottish sheriff.

Sir Stephen's report was "unable to determine a definite cause" of the crash, after hearing former RAF pilots declare that colleagues had refused to fly the Chinook Mark 2 similar to the one that crashed because they had identified technical problems during trials.

Mr Tapper said that Sir Stephen's open verdict meant "the RAF has failed to adhere to its own regulations - that only in cases where there is no doubt whatsoever should deceased air crew be found negligent".

In a letter to the sheriff, the MoD admitted that trials at a UK air force base had been temporarily suspended after a Mark 2 had experienced engine problems on the ground.

It also admitted that in the period leading up to the crash there were a number of other incidents involving airborne Chinook helicopters, of which "approximately five" were due to technical malfunction.

With the RAF's verdict complicating payments of compensation to the two pilots' families, the MoD is now understood to be putting pressure on them to settle out of court.

Although the NAO's remit is essentially financial, a senior official confirmed that a judgment of whether Chinooks were introduced into service in a "sensible and cost-effective way" would have to consider the still disputed circumstances surrounding the helicopter's most controversial episode.

Since the beginning of the year, the MoD has been under pressure to re-examine allegations that technical failure might have been responsible for the crash after the Chinook had been "rushed into service" after its refit.

## Grumbling designers enlisted to modernise nation's image

Designers and architects often fight for the attention of prospective patrons, but at a reception for the design community this week, Mr Tony Blair, the prime minister, pointed to Mr Peter Mandelson, his special adviser, saying: "If you've got any ideas for the millennium dome, tell him."

The gathering included architects and designers from the worlds of fashion and industry including Mr Ron Arad, Mr Tom Dixon, Mr Oswald Boateng, Mr Nigel Coates, Mr Jasper Conran and Mr Ross Lovegrove.

Mr Blair made it clear he had invited them because he wanted to use their talents. Showcasing their work in the millennium dome - the London exhibition centre to celebrate the year 2000 - is one thing but if the Labour government intends to exploit design's full economic potential, it must also address the complex issue of design's uneasy relationship with the financial and corporate sectors.

British designers have long grumbled

But the community has an uneasy relationship with business, writes Alice Rawsthorn

about being neglected in their own country. There are dozens of examples of highly educated Britons whose talents are exploited abroad: from Mr John Galiano and Mr Alexander McQueen, chief designers at Christian Dior and Givenchy, the Paris fashion houses, to industrial designers such as Mr Jasper Morrison and Mr Lovegrove, most of whose clients are German and Italian companies.

Until now, successive governments have done little more than listen to the complaints. This week's reception - initiated by the prime minister's policy unit after discussions with the Design Council, the publicly-funded body,

which promotes UK design - was intended to signal Labour's determination to act.

Mr Blair, who highlighted the economic importance of the creative industries in an article in the Guardian newspaper on Tuesday, has identified three projects for which he plans to harness the UK's design resources.

One is the millennium dome, and another includes the international events - such as G7 summits - that the UK will host over the next three years. He sees them as showcases for contemporary design and other creative sectors, such as film, music and multimedia. The third priority is to improve the design of airports, railway stations and terminals which define foreign visitors' first impressions of the UK.

The three projects will be the subject of brainstorming sessions organised by the Design Council this autumn.

Many of those present at this week's reception will be invited to attend, with



Image makers: Jasper Conran, Oswald Boateng and Ron Arad

the aim of producing practical proposals for the prime minister's office.

Spotlighting designers at highly publicised international events should provide welcome publicity for them and help Labour's efforts to modernise Britain's twice traditionalist image. Spain successfully deployed a similar strategy at the 1992 Barcelona Olympic

Games as did France at the 1989 bicentennial celebrations.

But these initiatives may simply succeed in making British designers appear more attractive to foreign companies. There is no guarantee it will become easier for John Galiano to secure investment to operate in the UK, or for Jasper Morrison to win com-

missions from British companies such as the DM500m (\$777m) tram system he recently completed in Germany.

To tackle these problems, the government needs to embark on a long-term exercise of encouraging the City of London and industry to adopt a more imaginative approach to design.

There are some encouraging signs. The UK's image is being examined with a view to an overhaul and Demos, the think tank, will publish a study on the subject this autumn.

Mr Mark Fisher, the arts minister, is looking at ways of improving public sector procurement. His department has asked the Design Council for advice on developing a new identity to mark its name change from Heritage to Culture, Media and Sport, hoping to set an example for other departments.

This week's reception proved that Mr Blair has the will to exploit design more efficiently. He must now find the way.

Alice Rawsthorn is a member of the Design Council



ARTS

Cinema/Nigel Andrews

# Clowns beneath the tears

Movie titles with exclamation points can spell doom, like unfunny jokes which need extra emphasis. One exclamation point was bad in *Star! Two* were worse, but Spanish punctuation demanded them, in *¡Que! maldad!* Now there are three in *Love! Valour! Compassion!*

The viewer picks their out of his body like darts before settling down to watch a filmed play about AIDS, death and bearing up.

Terrence McNally's off-Broadway ensemble piece doesn't need the strident title, even if the stridency is ironic. It is two hours of American Chekhov in which eight gay friends meet in a lakeside New England dacha over three holiday weeks.

Gregory (Stephen Bogardus), a "brilliant choreographer", lives in the rambling manse with his blind boyfriend (Justin Kirk). To it come the supercilious English composer and his Latin hunk of a lover, the long-married gay couple, the high-camp jester careless of his AIDS death sentence (played by equat, scrunch-eyed Jason Alexander of TV's *Seinfeld*) and finally the Brit's angelic, also-dying twin brother.

Any more artfully ravishing pathos and we could expect the next visitor to be Giacomo Puccini, setting it all to music. Instead the

audience escapes with virtue and tragedy are in symbiosis; they do not operate as a checks-and-balances system. Here we know that every time seriousness threatens - the blind boy's moment of passion with the hunk, the death of an offscreen loved one - the epigrams will follow close behind. For all gay people are clowns beneath the tears, at least in pieces like this, forever doomed to ensure that the Show Goes On.

McNally, who wrote *The Ritz* and *Frankie and Johnny*, has a talent for choreographing busy casts and letting each member have his stand-out solos. His comic skills, though, spend much of their time apologising for his excess pathos. This play is steeped in communal self-pity, placing gay characters in a ghetto no less oppressive for its volitional air of privileged tragedy than previous ghettos have been for being on the receiving end of bigotry and persecution.

There is wonderful comic dialogue - "Is there a British equivalent for machismo?" one of twins is asked; "No, oh, maybe Glenda Jackson" he replies - but it keeps behaving like a rescue cav-

alry. In Chekhov, comedy and tragedy are in symbiosis; they do not operate as a checks-and-balances system. Here we know that every time seriousness threatens - the blind boy's moment of passion with the hunk, the death of an offscreen loved one - the epigrams will follow close behind. For all gay people are clowns beneath the tears, at least in pieces like this, forever doomed to ensure that the Show Goes On.

The title town of the charmingly wheezy comedy *Palookaville* is on no map of New Jersey. It is the one-way ticket dystopia mentioned in Marlon Brando's "Coulda bin a contender" mumbblings in *On The Waterfront*. No one comes back from there, least of all Sid (William Forsythe), Russ (Vincent Gallo) and Jerry (Adam Trese), three no-hopers whose flirtation with crime begins with a bungled pastry shop - they broke in thinking it was a jeweller's - and ends with two fiascos involving a bank and a security van.

A producer called Pasolini (Uberto), three source stories by Italo Calvino and a Fellini-ish score by Britain's 1997 Oscar-winner Rachel Port-

LOVE! VALOUR! COMPASSION!  
Joe Mantello

PALOOKAVILLE  
Alan Taylor

BROKEN ENGLISH  
Gregor Nicholas

IDIOT BOX  
David Caesar

PORTRAITS CHINOIS  
Martine Dugowson

Money? First-time feature director Taylor has an eye for glum colours, poignant cul-de-sac settings and vivid supporting characters: not least Russ's Medusa-haired mother, who looks as if she was once runner-up in an Anna Karenina lookalike contest. When she breaks off a family quarrel at the dinner table with a primal cry of "I'm gonna miss *Wheel of Fortune*," it is the most perfectly witty moment in the film. Life in New Jersey never gets any better than a good TV show. If it did, people would be up and away from New Jersey.

*Broken English* is another tragicomedy about waking up to find yourself in the wrong postal area of Life. This time it is Palookaville, New Zealand. The proud Croatian father (Rade Serbedzija) rules with a rod of iron, or rather a free-swung baseball bat, over his two wilful daughters. Both are of marriageable age though waitress Nina is not of marriageable disposition. When she flings herself at the handsome young Maori chef (Julian Arabanga), a battle of wills, cultures and conflicting male proprietorships ensues.

Like *Once Were Warriors*,

the film suggests that New Zealand is a race war waiting to happen, though more races than we thought are lining up for weapons. The funniest scene is a contest between two loud, adjacent garden parties - one Maori, one Croat - in which ethnic tensions splutter as fiercely as the pig spilt by the ex-Yugoslavians. ("I'll show you what Turks did to our people," Dad is heard saying as he shoves the rod up the porker.) There is much deft comedy, laced with a little terror in every scene where Rade Serbedzija appears, an actor with a frown like Mars, a beard like Zeus and a soaring power pylon in his backyard whose symbolism needs no spelling out.

Also fierce, funny and Antipodean is *Idiot Box*, a sort of "Beavis and Butt-head do Australia" in live action. Ben Mendelsohn and Jeremy Sims play the Sydney retarders, two ebullient teenagers who swear, drink and talk dirty but can never quite muster the will or the nous to do anything. Such as, for example, ask a girl out, buy a television or rob a bank.

It all ends in tears or worse, and more porten-



Careless of his death sentence: Jason Alexander as the high-camp jester in 'Love! Valour! Compassion!'

tously than the film deserves. Writer-director David Caesar excels at alternating the manic with the meditative: the leads are excellent; and Graeme Blundell and Deborah Kennedy make a fine pair of madcap detectives. "What does that tell you?" asks Blundell, stalling the last coloured pin into a map showing a broad-spread robbery pattern. "They've got a fast car?" replies Kennedy.

The must-miss movie of the week is Martine Dugowson's *Portraits Chinois*: one of those French films in

which everyone takes turns to love everyone else, across a large social spectrum of Paris, and the audience needs a pocket calculator to keep track and miraculous intervention to cure. Helena Bonham Carter speaks French as English-born design assistant Ada, thus enabling her to exchange sub-Gothardian dialogue with the non-fairy cream of modern French acting. Faces from a hundred noted Euro-puddings pass by, but the movie still tastes like something pre-cooked from a bad cafeteria.

Theatre/David Benedict

## Austere affair

What is it with San Tropez in the winter? Claude Chabrol's 1988 film *Les Biches*, an overrated examination of a modern love-triangle made up of long, lingering looks, was set there in December. Marguerite Duras's *Suzanna Andler*, a similarly three-sided affair, was written at the same time and has precisely the same location.

Suzanna (Julie Christie) is considering renting an eight-bedroom holiday home on the coast for a month. It costs FF1m but her husband Jean is a millionaire, so why is she vacillating? For the first time in her life she has taken a secret lover.

Michel (Aden Gillett) has told her, "This is going to be an unimportant affair, not a grand passion," but seven months later they are still stealing moments together and Suzanna finds herself at some kind of crossroads. As the two of them admit (a shade implausibly) this is the first time they have ever discussed their past, we realise what Duras is up to. In true existentialist fashion, her characters have lived solely for the present, but now they must face both past and future.

The moment Catherine Miliken's wistful woodwind music threads its way through the silence at the opening of Lindy Davies's revival, you know exactly what you are in for. Her suggestive chamber score has an austere, desiccated feel. As the comedy act Trevor and Simon would put it, "Mr Gloom is in the room". Duras, alas, is not famous for her jokes.

It is all rather like a French version of an Anita

Brookner novel, but instead of wearing Jean Muir and considering lost love over a Rich Tea biscuit, Julie Christie remains wrapped in a heavy, protective black coat, pacing and prowling around Johan Engel's stripped-back, darkly elegant set atmospherically lit by Nick Beadle.

The undervalued Julie Legrand, looking for all the world like Meryl Streep reprising an Eve Arden role, puts in a sharp appearance as Jean's sometime lover and Gillett does what he can with the cipher-like Michel, but the play stands and falls on Suzanna.

It was Lindy Davies who persuaded Christie to make her British stage debut in her tremendous revival of Pinter's love triangle, *Old Times*. *Suzanna Andler* shares that play's preoccupation with secrets and lies, but where Pinter brilliantly creates a forward momentum while unravelling a mysterious shared past, Duras merely poses conflicting positions. *Old Times* capitalised on Christie's screen gift of being tantalisingly remote; but here, although her character is described as "unknowable", that is not quite the same thing. Every calibration of feeling has clearly been plotted, but they are all so carefully presented you never become engaged.

It looks like a great part, but in fact it's just a long one. By the interval, your patience with her indecision is wearing thin; by the end, I'm sorry to say, mine had worn out completely.

At the Minerva Studio, Chichester.



Mr Gloom is in the room: Aden Gillett and Julie Christie in 'Suzanna Andler'

Drottningholm Festival/Andrew Clark

## The first Euridice

In our age of going back to sources, you can't get much more original than the first surviving opera. Jacopo Peri's *Euridice* was performed in Florence in 1600 - seven years before Monteverdi presented his version of the Orpheus myth in Mantua. *Euridice* has just been revived at the Drottningholm court theatre near Stockholm, in a controversial production which tries to marry musical authenticity to an arty modern staging.

In recent summers, visitors to Drottningholm have been treated to the repertoire associated with its golden era at the end of the 18th century. The programming of operas commissioned or seen by Sweden's King Gustav III had an authenticity of its own - matching period instruments and original stage machinery to the works for which this faithfully preserved little theatre was intended.

Per-Erik Ohn, Drottningholm's new artistic director, has gone back to an earlier era, with two works offering contrasting approaches to an identical story. *Euridice*, the first surviving stage work to employ continuous music, follows the 16th century tradition of pastoral drama - the aim of which was to entertain while encouraging a few tears along the way. Next month Drottningholm will stage Luigi Rossi's flamboyant tragicomedy *L'Orfeo* (1647), illustrating how far and fast opera developed in its first 50 years.

Peri is Credited with "inventing" opera. Before he came along, court entertainments took the form of a commedia with spectacular musical interludes. Peri was

a leading light in a decade of dramatic experiments at the Medici court, and *Euridice* marked its climax. But the work was too intimate to impress an audience eager for spectacle, and Florence reverted to what it knew and liked best.

To make the Orpheus myth acceptable for a Medici wedding celebration, Peri dropped the tragic ending and substituted a scene of infectious joy in which Orpheus and Euridice are reunited on earth. Otherwise, the most striking feature for late-20th century ears is Ottavio Rinuccini's libretto: it is a poetic masterpiece, repaying attention not just for the beauty of its language, but the way it invites music. Within the style of melancholy arioso, Peri's score could hardly be more affecting: emotional truthfulness and lyrical delicacy move hand in hand. But until the fifth and final scene, it suffers from one fatal flaw - unvaried pace.

Or so it seemed at Drottningholm. Peder Freij's featureless tunics bathed the cast in grey uniformity, broken only by Pluto's outrageous Father Christmas outfit. Karl Dunér's staging further diluted individual personality by draping the action with robotic arm-gestures à la Bob Wilson, and the "choreography" was incongruously precise - exactly what the music is not.

There was one inspired coup de théâtre: for the central scene in Hades, the pastoral flaps lining the stage were withdrawn in favour of flame-red screens, while Venus and Orpheus descended on a cloud. It

looked sensational. Otherwise, the sole prop was a stool, from which Orpheus and his entourage held forth like moody teenagers.

And it was Joe, the schizophrenic adolescent from the television soap opera *EastEnders*, who kept coming to mind whenever Fredrik Strid's Orpheus was on stage. Boyish and glum, he was outshone by Jeannette Köhn's statuesque Euridice, about whom my only complaint was that Peri gave her so little to sing. The big set-pieces were all written for other voices - notably Christina Falk's eloquent Delfe and Rodrigo del Pozo's dignified Anaxetos. Best of all was Stephen Varcoe's bell-and-fire Pluto, who sang as if he meant every word, without deviating from impeccable period manners.

Full marks, too, to Jakob Lindberg, pillar of our own Royal College of Music and editor of the score, for coaxing such a colourful plume of sound from his 13-piece orchestra. Leading the way with his own contributions on chitarrone, he underlined the harmonic adventurousness of Peri's music, as well as its gentle passion.

Despite my reservations about the staging, I felt nothing but pleasure to be back at Drottningholm. The theatre itself is a marvel - not just for what you learn about how a court opera looked 200 years ago, but for the democratic way it works. With fulsome state support and sponsorship from Shell Sweden, Drottningholm is free of the snobbery that would attach to such an operation in the UK. Prices are affordable and the performance is of festival standard. That's "people's opera" for you.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

**EXHIBITIONS**  
**Van Gogh Museum**  
Tel: 31-20-570 5200  
Second of four summer exhibitions of drawings by Van Gogh. This time it is the turn of the works produced when the artist lived in Nuenen, 1883-1885. The exhibition is shown in two parts, with a changeover on Aug 18: to Oct 12

### DROTTHINGHOLM

**OPERA**  
**Drottningholms Slottsteater**  
Tel: 46-8-4570600  
Orfeo: Swedish premiere of Luigi Rossi's 1647 version of the legend of Orpheus. The producer is Jack Edwards, the musical directors Stephen Stubbs and Paul O'Dette. With the Drottningholm Theatre Ballet and Orchestra; Aug 2, 5

**LONDON**  
**CONCERTS**

**BBC Proms, Royal Albert Hall**  
Tel: 44-171-589 8212

● BBC National Orchestra of Wales: conducted by Mark Wigglesworth. Programme includes David Sawer's *The greatest happiness principle*, Bartók's Piano Concerto No. 3 with pianist Stephen Hough, and Sibelius's Symphony No. 2 in D major; Jul 31

● BBC Symphony Orchestra: and Singers conducted by Leonard Slatkin in works by Mahler, and world premiere of Roger Reynolds' *The Red Act Arises*; Aug 4

● Bournemouth Symphony Orchestra: conducted by Yakov Kreizberg in works by Mozart, Korngold, Markevitch and Stravinsky. With violin soloist Gil Shaham; Aug 5

● BBC Scottish Orchestra: conducts the BBC Scottish National Orchestra in works by Brahms, Chopin and Schubert; Aug 1

● Royal Scottish National Orchestra: performs works by Glinka, Prokofiev, Tchaikovsky, and the UK premiere of Glynis Kanchell's Symphony No. 3. With violinist Tasmin Little and counter-tenor David James. Conducted by Alexander Lazarev; Aug 3

● The Mecklenburg Opera company: performs Mahagonny-Songspiel and The Seven Deadly Sins by Kurt Weill. The programme is completed by a selection of German cabaret songs; Aug 3

**DANCE**  
**London Coliseum**  
Tel: 44-171-632 8300

● The Kirov Ballet: Folke Programme 1 - first of two programmes staged by Isabelle Folke, the choreographer's granddaughter; Jul 31; Aug 1, 2  
● Romeo and Juliet: presented in the original version by Leonid Lavrovsky, set to Prokofiev's score; Aug 4, 5

### SALZBURG

**Salzburg Festival**  
Tel: 43-662-844501

**CONCERTS**  
● Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at the Felsenreitschule; Aug 1

● Philharmonia Orchestra: conducted by Kent Nagano in works by Messiaen, Pintscher and Debussy; at the Felsenreitschule; Aug 1

● Philharmonia Orchestra: conducted by Bernard Haitink in works by Mahler; at the Grosse Festspielhaus; Aug 3, 4

**OPERA**  
● Boris Godunov: by Mossorgski. Conducted by Valerie Gergiev in a staging by Herbert Wernicke. Samuel Hamey sings the title role. Cast also includes Philip Langridge. With the Vienna Philharmonia, the Konzertvereinigung Wiener Staatsopernchor and the Slovenskí Filharmonický Chor Bratislava; at the Grosse Festspielhaus; Aug 3

● Die Zauberflöte: by Mozart. Christopherson Dohnányi conducts a new production by Achim Freyer. With the Vienna

Philharmonie and the Konzertvereinigung Wiener Staatsopernchor; at the Felsenreitschule; Aug 2

### THEATRE

● Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund. Revival of Peter Stein's production, with sets by Ferdinand Wöberbauer. With music by Wenzel Müller; at the Landestheater; Aug 1, 2, 3

● Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; at the Domplatz; Aug 4

● Libussa: by Franz Grillparzer. New production directed by Peter Stein, with sets by Moidele Bickel. Libussa is played by Dörte Lyssenski; at the Perner-Insel; Aug 1, 2, 3, 5

**SANTA FE**  
**OPERA**  
**Santa Fe Opera**  
Tel: 1-505-886 5900

● Arabella: Janice Watson sings the title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Aug 1

● Così Fan Tutte: Kenneth Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicoletta Molnar and designed by Bruno Schwegel; Aug 2, 5

● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demi-monde. Christopher Larkin conducts; Aug 4

● Semle: new production of

Handel's opera, conducted by John Nelson and directed by John Copley. Elizabeth Futral sings the title role; Jul 31

### SCHLESWIG-HOLSTEIN

**CONCERTS**  
**Music Festival**  
Tel: 49-431-567080

● Musica ad Rhenum: in works by Bach and Handel; at St. Nicolai-Kirche, Lüneburg on Jul 31 and at the Dom, Meldorf on Aug 1

● Philharmonie der Nationen: conducted by Justus Frantz in works by Rossini, Mendelssohn, Respighi and Verdi; at the Rinderstall, Haseldorf on Aug 5; at the Schloss, Kiel on Aug 6; at the Musik- und Kongresshalle, Lübeck on Aug 7

● Taverne Consort & Players: conducted by Andrew Parrott in a programme including works by Bach; at St. Marien-Kirche, Lübeck on Aug 4 and at St. Michaels Kirche, Hamburg on Aug 5; Aug 4, 5

**TANGLEWOOD**  
**CONCERTS**  
**Tanglewood Festival**  
Tel: 1-617-531 2000

● Boston Symphony Orchestra: conducted by Seiji Ozawa in works by Beethoven and Berlioz. With piano soloist Arcadi Volodos and tenor John Aler; the Shed; Aug 1

● Boston Symphony Orchestra: conducted by Richard Westerfield in works by Lieberman.

Saint-Saëns and Rachmaninoff. With violin soloist Joshua Bell; the Shed; Aug 2

● Boston Symphony Orchestra: conducted by Seiji Ozawa in works by Barber and Mahler. With soprano Barbara Bonney; the Shed; Aug 3

● Boston Symphony Orchestra: and Tanglewood Music Center Orchestra conducted by Seiji Ozawa, Leon Fleisher, Keith Lockhart and John Williams in a programme which includes Tchaikovsky's 1812 overture; the Shed; Aug 5

### VERONA

**OPERA**  
**Arena di Verona**  
Tel: 39-45-800 5151

● Aida: by Verdi. Conducted by Nello Santì in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; on Aug 1, 10 & 15 Maria Guleghina sings the title role

● Madama Butterfly: by Puccini. New production. Conducted by Angelo Campori, with designs by Beni Montresor; Aug 2

**WASHINGTON**  
**CONCERTS**  
**Wolf Trap Tel: 1-703-218 6500**

● National Symphony Orchestra: conducted by Zdenek Macal in a programme of works by Tchaikovsky; Aug 1

● National Symphony Orchestra: conducted by Zdenek Macal in Verdi's Requiem, with the Choral Arts Society of Washington; Aug 2

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## COMMENT &amp; ANALYSIS

# Thaw pierces the Aegean chill

Greece's premier wants better relations with Turkey, say Edward Mortimer and Kerin Hope



Costas Simitis: 'In Greek-Turkish discussion every word is important'

"Slowly but surely" could be the motto of Mr Costas Simitis, Greece's socialist prime minister. This applies equally to his modernising of the Greek economy as to his building on the ground-breaking agreement reached with President Suleyman Demirel of Turkey a fortnight ago at the Nato summit in Madrid.

The agreement with Turkey - reached with US encouragement - to eschew the use or threat of force has transformed the atmosphere between two nominal allies, which only last year came to the brink of war.

One year after the death of his unpredictable predecessor, Andreas Papandreu, Mr Simitis looks increasingly self-confident. His pragmatic style contrasts with that of Papandreu, a leftwing economist and founder of the governing Panhellenic Socialist Movement (Pasek). Papandreu was always quick to exploit Greek insecurity about its larger and historically dominant Turkish neighbour.

"Our economic, social and political structures in recent decades largely reflected defensive attitudes born of an isolationist and protectionist mentality," Mr Simitis says in an interview, obliquely criticising his predecessor.

To be fair, Papandreu did once try for a rapprochement with Turkey when he established a personal rapport with the late President Turgut Ozal during the world economic forum at Davos in 1988. But on that occasion the much-vaunted "Davos spirit" of reconciliation proved short-lived.

Mr Simitis believes that Davos failed because too much was attempted too quickly. Insufficient attention was paid to detail: a mistake he is determined not to repeat this time.

"In Greek-Turkish discussion every word is important," he says, intervening in English to correct the Oxford-trained economic adviser summoned to translate. And that, he explains, is why Greece is proceeding "safely not quickly" with the next step in the reconciliation process to be taken under European Union auspices by a bilateral team of experts. "I want a result, not just discussions that will end up, as in the past, in disagreement," he adds.

Greece and Turkey have been at odds for years over sovereignty and economic rights in the Aegean waters surrounding hundreds of Greek islands, some of which lie only a few miles off the Turkish coast. The most contentious issue concerns the continental shelf, which is believed to contain valuable oil deposits.

On the very day that Mr Simitis took office last year, the two countries came close to fighting over Imia, an uninhabited rock in the south-eastern Aegean. It took the intervention of Mr Richard Holbrooke, the top US troubleshooter, to avert a military clash.

As a result, Greece is still blocking an Ecu375m (£244m) financial package promised to Turkey under its customs union agreement with the EU. Mr Simitis insists that, before a dialogue, Turkey must either agree that it does not dispute Greek territory anywhere in the Aegean, or submit any outstanding claims to the World Court.

He also took a firm line on Cyprus, an issue not mentioned in the Madrid declaration although it stirs more feeling in Greece and Turkey than any other bilateral problem. Turkey, which sent troops to the island in 1974 to secure a separate enclave for the Turkish Cypriots, does not recognise the Greek administration in southern Cyprus as a legitimate government. But Greece is energetically sponsoring that government's application for inclusion in the next wave of EU members.

Separate UN-sponsored negotiations between the island's Greek and Turkish communities took a step forward when their leaders met in upstate New York earlier this month. But that process could be "rendered useless" by the EU's intention to open accession talks with Cyprus early next year, according to a tough joint statement issued earlier this week by Mr Rauf Denktaş, the Turkish Cypriot leader, and Mr Bülent Ecevit, Turkey's deputy prime minister.

Mr Simitis insists the accession procedure will go ahead "no matter what reactions there might be from the Turkish side". Efforts to solve the political problem will continue in parallel. The accession procedure will take years "and we shouldn't hasten to determine now what should happen then," he says.

But he refuses to rule out the possibility that Greece would veto other candidates for membership in an enlarged EU if in the end, its partners refused to permit the entry of a still-divided Cyprus. "Greece will use all means that are on offer within the framework of the European Union to achieve what it considers to be right," he says.

More pressing problems confront Mr Simitis at home, where he expects the coming winter to bring a renewal of widespread social protests as he pushes ahead with attempts to bring Greece's economy in line with European competitors.

Mr Simitis has given priority to meeting the Maastricht convergence criteria for eventual membership of the proposed single European currency. He knows that better relations with

Turkey would help, by enabling Greece to cut its inflated defence budget and encouraging foreign investment.

But he fears that any hasty move in that direction could provoke a revival of nationalist passions at a time when he already faces entrenched opposition from powerful interest groups opposed to economic reform. Notwithstanding the prime minister's efforts, Greece is the only EU member that will be unable to reach any of the Maastricht targets for joining the euro by the end of this year. It hopes to qualify for a possible second wave of entrants by hitting the targets next year or in 1999.

Inflation has fallen but, at an annual 5.5 per cent, is still more than three times the EU average. While Greece is on track to reduce the budget deficit this year from 7.4 per cent to 4.2 per cent of gross domestic product, the Maastricht 3 per cent target is still some way off.

Stung by the charge that he has so far failed to slim down the public sector, which is seen as his party's main power base, Mr Simitis claims to have made important strides in liberalising Greece's telecoms and energy markets. But he admits there is much still to be done, not least the restructuring of Olympic Airways, the troubled state carrier which has failed to implement reforms agreed more than two years ago with the European Commission.

There is nothing flamboyant or even charismatic about Mr Simitis. Yet he has something in common with Mr Tony Blair, the UK prime minister, in that he has reshaped an old-fashioned socialist party by pushing through policies that would have been bitterly opposed just a few years ago. But Mr Simitis emphasises that "in other respects we are closer to the French Socialists, for example in taking measures to benefit low-income pensioners and the unemployed."

Either way, it is clear that Mr Simitis wants to leave behind Greece's third world socialist tradition of the past. Instead he wants to be judged by the standards of western European social democracy.

## LETTERS TO THE EDITOR

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## Gold has lost some glister in the modern world of central banks

From Mr Luchin Fischer

Sir, The FT Guide to Gold (July 21), though informative, does not seem to be in tune with the times. In view of the recent central bank gold disposals alluded to by Robert Chote, his ensuing statement that most central bankers are still reluctant to dispose of an asset considered a hedge against inflation (what inflation?) and not someone else's liability sounds like playing Glenn Miller to Techno-rager kids. As he correctly points out, by having sold more than two-thirds of its gold

reserves Australia's Reserve Bank acted like an ordinary investor. And so are the other central banks which are modernising the management of their reserve portfolio, including those of the "really big stockpilers". A prime example is the recent Swiss National Bank law reform, geared to increase asset revenue by revaluing gold reserves closer to market price, allowing a higher proportion of foreign exchange reserves, the use of derivatives in their management and reducing gold coverage of

circulating money from 45 to 25 per cent (a revision bearing no link to the funding of the Solidarity Foundation). Similarly, Mr Chote omits mention of the recent controversy in Germany over the proposed sale of part of its gold reserves to meet the Maastricht deficit criterion. Perhaps it won't be too far-fetched to expect some mega-galls in gold's coffin in the not-too-distant future.

Ludwig Fischer,  
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Switzerland

## Threat to gas group's ability to plan

From Mr David Varney

Sir, Mrs Margaret Beckett, the UK secretary of state for trade and industry, has said that the Department of Trade and Industry's forthcoming review of the regulation of the utilities industries will be guided by the principles of transparency, consistency and predictability, with enhanced accountability. Rightly, she observed that predictability is required for the "smooth operation of the industries themselves and to allow a sound basis for long-term planning".

The consultation process of the price control for Transco, BG's pipeline subsidiary, is a timely reminder of the difficulties which the regulated utilities are

encountering in achieving predictable outcomes from the regulatory process. On June 15, the results of the Monopolies and Mergers Commission's lengthy inquiry into future price regulation of Transco were published.

The MMC's recommendations were accepted by BG and Ofgas as the basis for a settlement - the "umpire's decision" - after both sides had fully assimilated the MMC's report.

Yet, in the subsequent consultation paper on the draft licence conditions giving effect to this settlement, Ofgas proposes to depart fundamentally from the MMC's recommendation in a way which would transform the incentive-based character

of these recommendations. Significantly, Ofgas itself had previously strongly rejected the modification it now proposes.

The new government inherits regulatory arrangements for the utility industries in which some regulators are required by statute to implement MMC recommendations in full while others retain discretion. We look forward to this source of inconsistency and unpredictability being addressed in the DTI review.

David Varney,  
chief executive,  
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Berkshire RG6 1PT, UK

## A very unlikely, and unpalatable, meal

From Mr Peter Seilern

Sir, In the article by Simon Kuper and Andrew Fisher, "Germany seems unlikely to halt D-Mark's slide" (July 21), they quote a Mr Brian Marber as claiming that, if the German currency's correction was "undoubtedly an end", as Mr Hans Tiet-

meyer, Bundesbank president, put it, he, Mr Marber, would eat Mr Tietmeyer's lederhosen. May I point out that the Bundesbank chief, being neither Bavarian nor Austrian, is highly unlikely to be wearing lederhosen. It would be more useful if Anglo-Saxon analysts would

delve further into German sartorial habits before making unpalatable proposals.

Peter Seilern,  
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London W1X 1DD, UK

## Called to book

Travel agents face competition from online services and interactive television, says Scheherazade Daneshkhu

In 1841, Thomas Cook, pioneer of the package holiday, organised an outing by train from Leicester to Loughborough for supporters of temperance in Victorian England. He advertised the trip, despatched invitations and sold the tickets.

Today Thomas Cook, the German-owned travel agency which bears his name, faces a technological revolution which threatens to sweep it and many other companies away. The growth of online booking services and the development of interactive television could, at least theoretically, eliminate the role of the travel agent altogether.

"Users can bypass the travel agent and book direct from suppliers," says Mr Barrie Barnes of Philips Electronics, which last year started manufacturing set-top boxes enabling users to access the internet via their television.

Datamonitor, the management consultancy, forecasts that the value of travel booked online in the UK alone will increase from less than £1m (\$1.67m) in 1997 to more than £1bn within five years. Once new technology is established it could quickly drive a fifth of travel agents out of business, according to the Geneva-based International Labour Organisation.

Unlike the banking and insurance industries, direct sales in the holiday industry have been slow to take off. But, although few family holidays are booked over the phone or through the internet, agents acknowledge this is likely to change swiftly once interactive television is fully developed.

Customers will then be able to watch videos of destinations, ask questions about the place and make bookings using their remote control: all without having to stir from their armchair.

But agents say they will not become hapless victims of the transformation. The internet will change the way they do business, they admit, but it will not make them redundant. Online technology, they say, will rarely be used for anything more complicated than booking an airline or



Before the internet: package holiday founder Thomas Cook (left) and an early brochure

Travel in East Africa

COOK'S HANDBOOK

train ticket. "The vast majority of customers [only] want to search [on the internet]," says Mr Mark McCafferty, managing director of Thomas Cook travel. "And as soon as you are searching there is potential for the travel agent" to provide added-value services.

Airtours, the largest international package holiday group, agrees. The internet could replace holiday brochures, but customers will still want to talk directly to an agent when it comes to choosing and booking a holiday, it argues.

That does not mean travel agents will not have to adapt. Going Places, the travel agency arm of Airtours, has just doubled its

telesales division in preparation for what it believes will be an explosion of direct sales.

Thomas Cook is hedging its bets by selling holidays in its shops and over the telephone. It also plans to sell holidays and foreign exchange on its internet site within the next two months. Providing a variety of distribution channels is expensive in the short term, but travel agents believe they cannot afford to do otherwise.

Like all intermediaries, travel agents are vulnerable to elimination once direct contact is established between suppliers - such as airlines and hotels - and the customer. Airlines, in particular, are looking for ways to cut distribution costs. In the US they have moved strongly to reduce the commission they pay to travel agents, a trend that is spreading to Europe. The evidence from the US shows that small agents are particularly vulnerable.

"Competition from new entrants in the travel industry such as network and software companies, the rise of online systems designed to eliminate the traditional travel agent's booking process make it especially difficult to thrive," says Mr Hal Rosenbluth, president of Rosenbluth International, the Philadelphia-based busi-

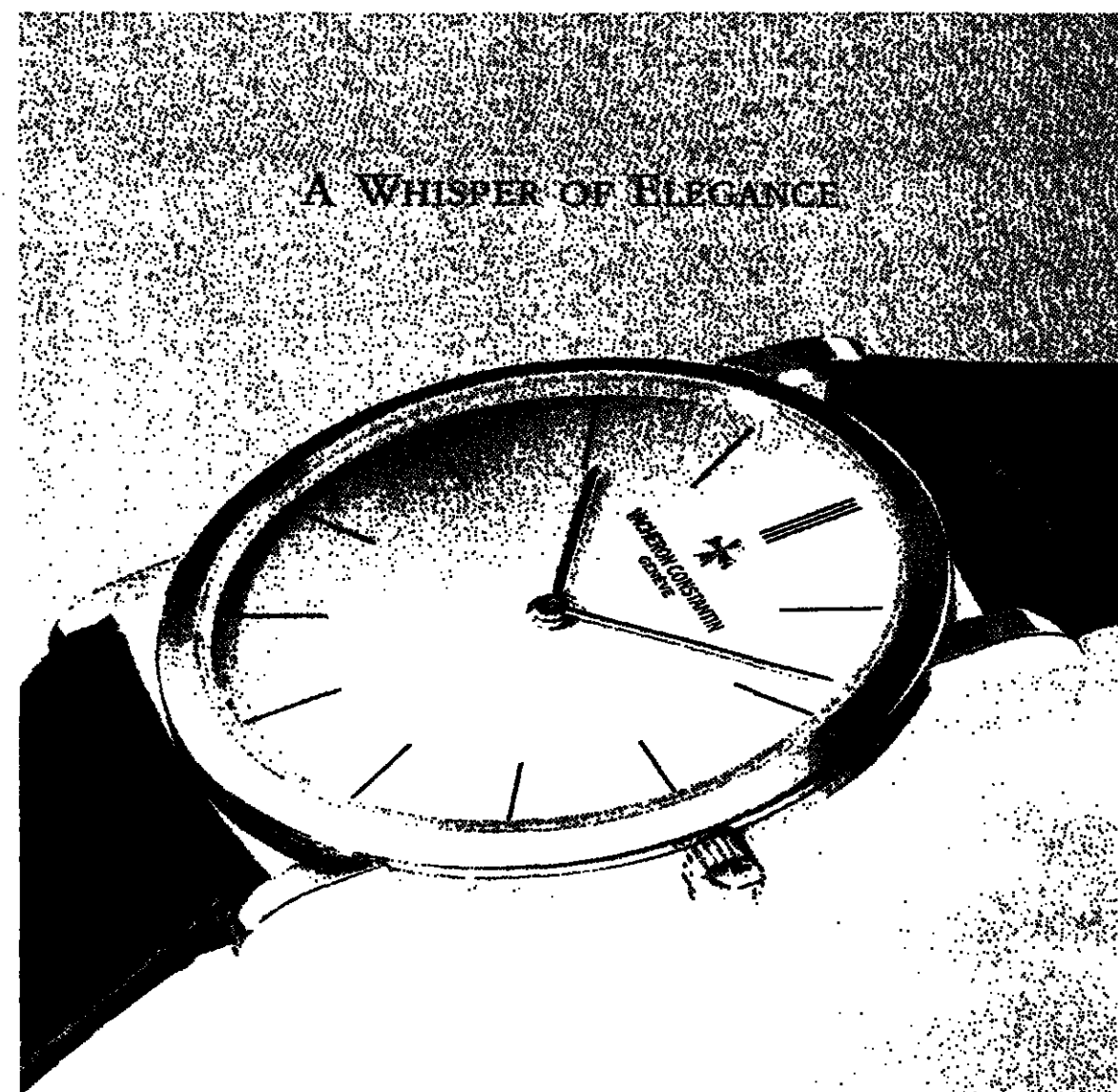
ness travel agent. "However, where others see disaster, we see enormous opportunities."

Businesses travel agents, hit by the rise of online bookings, have shown themselves adept at reinventing themselves as "travel managers". Instead of selling tickets and making travel arrangements, they are charging consultancy fees for reducing the amount client companies spend on travel.

Carlson-Wagonlit, the joint venture between Carlson Travel in the US and Accor in France, says that it relied entirely on commission for its income 10 years ago; commission now accounts for less than half.

This trend could spread to the leisure market. Mr Ian Reynolds, chief executive of the Association of British Travel Agents, believes that new technology gives agents the opportunity to charge for specialised advice and tailor-made holidays. But the overall cost to the holiday-maker would not necessarily be higher, if airlines reduced fares as commissions paid to agents came down.

"The way holidays are sold will change more in the next five years than in the past 15," says Mr Richard Carrick, marketing director of Airtours. "The industry is in a state of enormous flux."



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## FINANCIAL TIMES

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Thursday July 24 1997

## Asean's mid-life crisis

Leaders of the Association of South East Asian Nations had planned their Kuala Lumpur summit, which opens today, as a celebration of the organisation's achievements since it was formed 30 years ago. Instead, the event seems set to highlight the growing dilemmas confronting the grouping's future.

These have been given prominence by the last-minute decision to delay Cambodia's membership of Asean, after its recent coup. As well as being an embarrassing setback for the grouping's ambitions to act as a unifying force throughout the region, the incident points to important longer-term lessons. The most important is that it has been too preoccupied with broadening membership, when deepening integration should be the priority.

Even before the coup, the decision to admit Cambodia, along with Burma and Laos, looked poorly thought through. No coherent case was made for why the countries had to join so soon; nor, apparently, was much attention paid to the political and economic difficulties their membership would pose. At the least, embracing some of Asia's poorest and most backward countries risks diverting Asean from its key objective of economic liberalisation.

That events took this course may reflect Asean's mutually deferential approach to decision-making. The system is said to preserve cohesion between

the grouping's members. But in this case, consensus seems to have been achieved at the expense of clarity of purpose and vigorous debate about the issues. That is a weakness which a grouping with such an important role in regional security and stability can ill afford.

The Cambodia debacle may stimulate fresh thinking. Indeed, the decision to delay the country's membership is a departure from the grouping's long-standing principle of non-intervention in neighbours' domestic affairs. Some influential voices are now calling for greater action to promote political and institutional reforms in the region.

Such an approach would face many political sensitivities and practical problems - not least, how to square it with Asean's embrace of Burma's repressive regime. Nonetheless, it recognises a broader imperative: if Asean is to continue to develop, its members need to move beyond loose co-operation and unite behind more sharply-focused common goals.

Their first priority should be to define a collective role in regional security and to keep up the pressure for economic liberalisation. That will not be easy. But without closer integration, Asean's effectiveness and credibility risk falling prey to growing internal strains. That would not be in the interests of its leaders, or of stability in the region as a whole.

## Dearing

Sir Ron Dearing's report on the future of higher education is a major piece of work - as large in scope and with implications at least as profound as those of the Robbins report which helped trigger the first great expansion in UK higher education more than 30 years ago.

It contains much to recommend it. Its central recommendation that students will have to pay towards their tuition has become an inevitability in a world of larger student numbers. Its call for the resumption of growth in higher education, but with much of that growth concentrated below degree level, looks to be the right course. And its call for standards still to be maintained as numbers rise has got to be correct.

The government has accepted the broad thrust of the report, but it has come up with its own scheme for how students should contribute more to the costs of their education.

How far the government's solution is the right one, however, is at present difficult to judge. Where the Dearing report provides pages of analysis of the various options, the government has provided none, as yet, for its plans.

Universities, students, parents and employers are left reliant on background briefings that universities should see about an extra film a year from the gov-

ernment's proposals, and that repayment will not start until graduates earn around £10,000 a year.

This is hardly an exercise in the open government which ministers claim to wish to espouse. And while providing the bare bones of the scheme it wishes to adopt, the government-yesterday did not address some of the key issues Sir Ron's report raises about any new funding system - its overall impact on the public finances, how the loans are to be treated in terms of government borrowing, and whether Sir Ron is right to judge that securing private finance for them would not provide value for money.

In addition, while pronouncing immediately on one of the longer-term decisions needed, yesterday's statement did nothing to address the short-term issues that the universities face: not least the further cuts in unit costs per student which are built into the government's spending plans. As things stand, the universities calculate this will leave them with a £30n deficit by 2000.

Given the timetable it plans to follow - an autumn white paper succeeded by rapid legislation to get a new system in place for September next year - the government should provide more details rapidly of what it plans to allow a full assessment to be made.

## Asset prices

Following the biannual Humphrey-Hawkins testimony before Congress by Mr Alan Greenspan, chairman of the US Federal Reserve, the Dow Jones Industrial Average again scaled new heights. Market confidence reflects what Mr Greenspan left out as much as what he said. He did not repeat his reference to "irrational exuberance", although the stock market has risen 25 per cent since he coined the phrase last December. Nor did he indicate that interest rates would rise next month.

The Fed's job is to stabilise the prices of goods and services in the US economy and minimise the variance in output. It is not Mr Greenspan's job to guide asset prices, particularly since the attempt to do so might destabilise the real economy. For this reason, last March Mr Greenspan ruled out an interest rate rise simply to prick the stock market bubble.

Nevertheless, the chairman will be concerned about the rising stock market. Asset prices can affect real activity, by altering the finances of firms and households and so affecting their investment and consumption decisions. In the upturn, this can lead to excess demand. In a downturn, it can exacerbate the contraction. Consequently, asset prices are a leading indicator of inflation. Notwithstanding Mr Green-

span's warnings that stable growth and low inflation will not last indefinitely, leaving interest rates unchanged for now seems right, since consumer price inflation remains subdued at present. There is also no sign that high asset prices are filtering through into excessive inflationary pressure.

Nevertheless, it would be a mistake to be too complacent about asset prices. Japanese experience shows that an economy may be destabilised even if consumer price measures appear well under control. Similarly, a sharp stock market correction could cause problems for the US economy.

Yet Mr Greenspan cannot do much to deal with these risks, so long as what the Fed targets behave as well. It forecasts economic growth at between 3 and 3.4 per cent this year, but expects it to fall to 2.2-2.4 per cent next year. Given this benign prospect, Mr Greenspan's only option is to continue to warn that the next movement of interest rates is more likely to be up than down.

Should the equity market reverse dramatically, he would have to act vigorously to provide liquidity in the financial markets, as in 1987. At present such an event seems the biggest threat to the enviable record of stable growth that the US economy has achieved under Mr Greenspan's guidance.

## Europe's pyrrhic victory

Small concessions do not detract from Boeing's market domination, argues Michael Skapinker

If, on the way to an important meeting, you find the road blocked by a threatening driver, do you jump out of the car, trade blows and arrive late and bloodied for your appointment? Or do you give way and, pride slightly wounded, reach your destination on time?

Boeing of the US yesterday decided to give way to Mr Karel Van Miert, the European Union competition commissioner. The US airline made several concessions, including agreeing to remove the exclusivity provisions from 20-year supply contracts with three US airlines - American, Continental and Delta.

Boeing did so because it wanted to avoid disruption to the most important meeting in its 51-year history. Tomorrow, Boeing shareholders meet in Seattle to approve the company's takeover of McDonnell Douglas, which will create the world's biggest aerospace and defence company.

Mr Van Miert's victory has been hailed by fellow European commissioners. The concessions Boeing has made could have some detrimental effects on the future of its business. But these will be small compared with the benefits of the takeover, which will create a \$48bn (£29bn) turnover group, with 200,000 employees and a towering presence in civil aircraft and military markets worldwide.

The many European suppliers to Boeing, which include Smiths Industries of the UK, Snecma of France and Alenia of Italy, will be relieved that a damaging trade war has been averted.

But Boeing's concessions will do little to improve the competitive position of Europe's fragmented defence sector or of Airbus Industrie, the European consortium. Nor will Boeing's concessions limit its freedom of action. Its agreement to maintain McDonnell Douglas's commercial aircraft business as a separate legal entity for 10 years will not hamper Boeing should it decide to stop manufacturing Douglas aircraft, leaving it free to persuade airlines to buy its products instead.

Boeing's undertaking to the Commission not to interfere with relations between its suppliers and other commercial aircraft manufacturers is little more than a promise of good behaviour. "We're saying we won't beat our wives, and, by the way, we haven't beaten our wives and we didn't intend to beat our wives," says Mr Richard Albrecht, Boeing's executive vice-president.

Boeing's agreement to drop the exclusivity clauses from the aircraft supply deals could have some effect over the next 20 years. Mr Robert Crandall, chairman of American Airlines, is due to retire by 2001. His successor might decide to buy aircraft from Airbus. Delta is also in the midst of change, with Mr Ronald Allen, its chief executive, set to leave at the end of this month.

But while Airbus could win orders from the three airlines in future years, it will be difficult.

The three carriers decided to buy from Boeing because it offered the widest range of aircraft at the lowest prices and because purchasing from a single supplier cuts maintenance and training costs.

Mr Gregory Brenneman, Continental's president, said his airline had also chosen Boeing because it offered better customer support than Airbus.

It is comments such as these which should worry European Commissioners as they celebrate their humbling of Boeing and its supporters in the White House and the US Congress.

Boeing's takeover of McDonnell Douglas is one of several mergers in recent years which have consolidated the US industry, producing a handful of world-class competitors.

Boeing's biggest US competitor, Lockheed Martin, itself the result of a merger, announced earlier this month that it planned to buy Northrop Grumman for \$8.2bn.

If the deal wins regulatory approval, the US will have three aerospace and defence giants - Boeing, Lockheed Martin and Raytheon - compared with a dozen large manufacturers at the beginning of the decade.

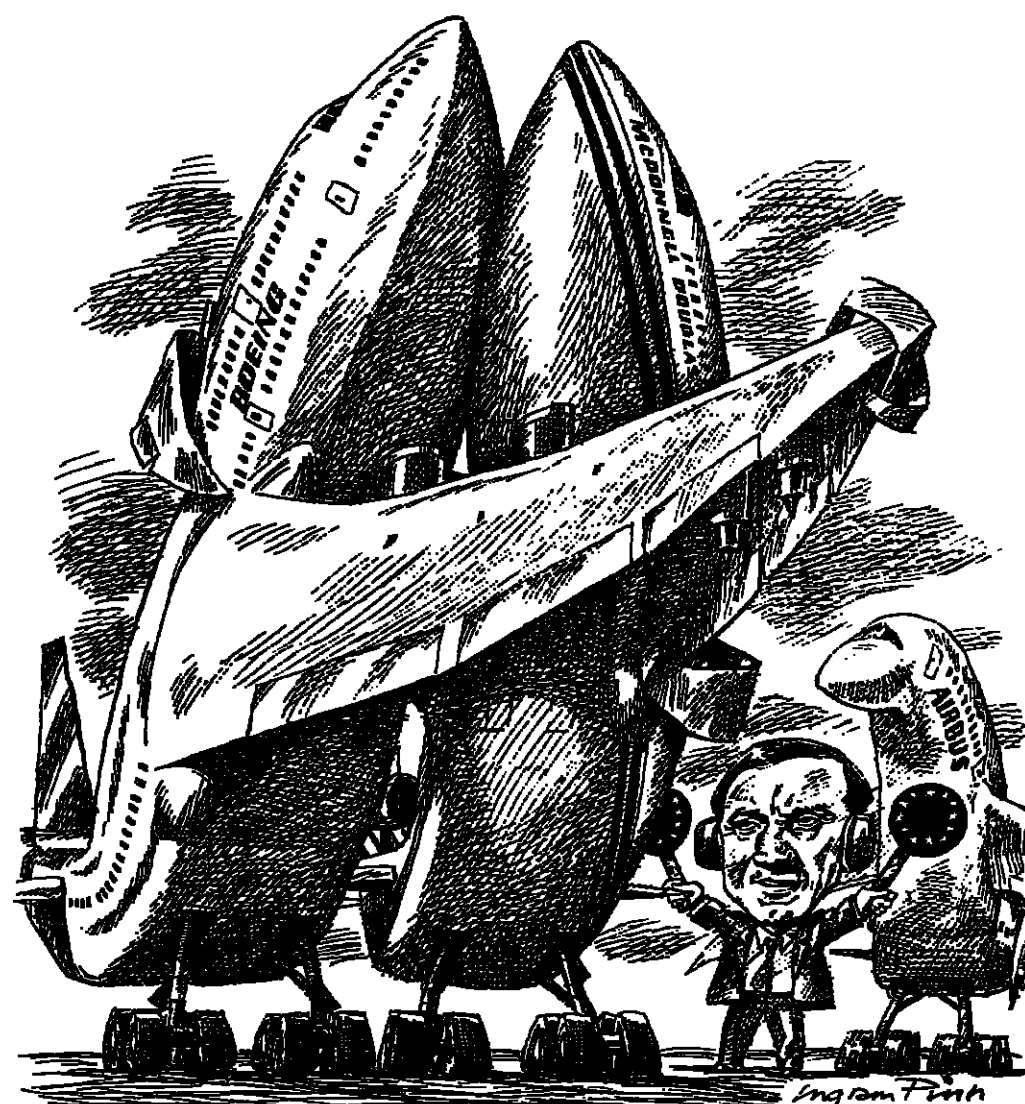
By contrast, Europe's consolidation of its defence industry has barely started. Mr Manfred Bischoff, chief executive of Daimler-Benz Aerospace (Dasa) of Germany, points out that the US companies have the advantage of only having to deal with one government. Few EU governments are ready to see their arms industries disappear into a pan-European group.

Mr Bischoff argues that Europe should concentrate on reforming Airbus, which could later form the basis of an aerospace and defence group big enough to compete with the Americans.

The reform of Airbus is not proceeding smoothly. The four companies which own Airbus - Dasa, Aerospatiale of France, British Aerospace and Casa of Spain - agreed earlier this year to turn the consortium into a profit-making company. At present, it is a confederation of the four partners, who make decisions on the basis of unanimity.

Dasa and BAE, which have been pressing hardest for change, argue that, as a single company, Airbus will be able to make decisions more quickly and provide a better level of customer service. Aerospatiale, however, has been dragging its feet, arguing against having to hand its factories over to the Airbus management. Significantly, the French government, led by President Jacques Chirac, was the most strident opponent of the Boeing-McDonnell Douglas merger and led the calls for Mr Van Miert to stand firm.

Now that the skirmish is over, and the EU has won its small victory, the European industry needs to address itself to larger tasks. Above all it must create companies that can challenge the US in the marketplace - and not just in the negotiating chambers of Brussels.



## Van Miert's finest hour

The EU's competition commissioner is being credited with taking on the US, says Emma Tucker

When Mr Karel Van Miert became European competition commissioner in 1993 there were plenty who suspected that his socialist past would ill equip him for the battles that lay ahead.

But with all the zeal of a convert he has proved his critics wrong. In a crusade to enforce fair competition in the European Union, he has busted cartels, forced liberalisation upon closed sectors and taken a fairly tough line on government subsidies.

Yesterday, came his apogee. The last-minute climbdown by Boeing over its merger with McDonnell Douglas had Mr Van Miert hailed in Brussels as the little guy who took on the US giant - and won.

"You have to hand it to him," says one Commission official. "He took them on and he won. He showed that the European Commission is a force to be reckoned with."

Mr Van Miert has been credited with placing the European Commission at the top of US news bulletins for the first time anyone can remember. "The Boeing case shows that we are just as serious as the US competition authorities, and some would say have done a better job," says one official.

But for all the glory of his victory over Boeing, Mr Van Miert's strategy of pushing the champion US aircraft manufacturer to the limit was risky. There were times when it looked as if he had mis-calculated.

He also faces criticism for having tainted the credibility of the EU's Merger Regulation by publicly voicing his concerns about the Boeing deal in what should have been a confidential process.

After lambasting elements of the merger on a tour of the US earlier this year, it was not long before politicians on both sides of the Atlantic were rushing forward with their views on the deal.

"This case has politicised the Merger Regulation which is the one bit of competition policy that should be kept in an iron case sealed off from the politicians," says one Commission official. "It has undone a lot of the efforts that have been made over the last few years to give credibility to the Commission's handling of mergers, even if the result is not too bad."

This politicisation could play into the hands of supporters of an independent competition authority for Europe, along the lines of Germany's Bundeskartellamt. But Mr Van Miert's supporters defend his actions in the name of transparency.

"He is a man who believes in accountability and some of us do get nervous," says a Commission official. "But he believes in explaining to people what he is doing and why."

Among those listening - and contributing - to the argument was the French government, chief champion of Airbus Industrie. Some suspect Mr Van Miert of courting favour with Paris, ahead of potentially bruising battles over the restructuring of state-owned bank Credit Lyonnais, the liberalisation of telecoms, energy and transport networks and subsidies to Air France.

But trying to buy favours from the French is a "waste of time", according to one Commission official. "You can secure any number of victories for the French in competition and trade matters, but they are always

totally, and unrepentantly ungrateful," he says.

Whatever Mr Van Miert's motivation, there is no disguising his enthusiasm for a good punch-up. Some fear that, fresh from his Boeing triumph, he will turn his energies to other contentious cases: a prospect which bodes ill for companies such as British Airways, which is still awaiting clearance for its proposed alliance with American Airlines.

"I was rather hoping he would get a bon on the nose over this Boeing case," says one airline industry expert. "Now he will probably charge ahead and make unreasonable demands."

It is also unclear how the fallout from the Boeing case will affect relations between the EU and the US when it comes to co-operating on competition affairs.

"We were prepared to address the merger on the basis of concerns for customers, which is the traditional US approach to anti-trust law," says Mr Richard Albrecht, Boeing's executive vice-president. "The approach by the European Merger Task Force seems to be much more concerned with the effect on competitors."

Some fear the Commission's clear defence of Airbus will lead to reprisals. The US authorities also have to clear the BA-AA alliance and are examining the planned merger between Guinness and Grand Metropolitan.

But the potential damage should not be exaggerated. "This was such a hard case that to draw any general conclusions from it is probably dangerous," says one competition lawyer in Brussels. "I think both parties are mature enough to realise that and to recognise that they have got far more in common than separates them."

## OBSERVER

## Karel gains altitude

After Boeing it seems the sky's the limit for European Union competition chief Karel Van Miert. The Belgian commissioner's tenacious campaign against the world's number one aerospace manufacturer has won him powerful friends - especially in Paris, where President Chirac saw the Boeing-McDonnell Douglas merger as a frontal assault on Airbus Industrie. Now he's being talked of in Brussels as a plausible successor to Jacques Santer as European Commission president.

Jokeying for the top job in Brussels will begin shortly, even though Santer still has two and a half years to serve - it's likely to be dragged into the horse-trading next year surrounding the appointment of the president of the proposed European central bank.

Any shortlist will probably include Felipe Gonzalez, former Spanish prime minister; Peter Sutherland, former Irish Commissioner, head of Gatt and top man at Goldman Sachs in London; Giuliano Amato, former Italian prime minister; and Volker Rühe, the ambitious German defence minister, assuming he doesn't succeed Chancellor Kohl.

Three years ago, fellow-Belgian Jean-Luc Dehaene, the favoured Franco-German candidate, saw his bid to succeed Jacques Delors torpedoed by a premature leak to the press and a British government veto. Van Miert was relieved: a Dehaene succession would have pushed him out of his job as Belgium's sole EU commissioner. And he wouldn't have entered Brussels folklore as the man who made Boeing blink.

## Screen star

IBM-watchers think Big Blue's latest management reshuffle contains a strong hint about who might succeed Louis Gerstner as chairman and chief executive - although a change of boss might be some way off, as Gerstner's just 55.

The shake-up moves Samuel Palmisano, head of the PC business, up to senior vice-president in charge of a new division that includes the PC operations, the consumer division, the network computer business and a joint venture with Japan's Toshiba that makes flat-panel liquid crystal displays. At 44, he'll be IBM's youngest top executive.

Palmisano, who joined IBM in 1973, isn't one of the group of executives who've followed Gerstner from American Express through RJR-Nabisco to IBM,

but the spectacular performance of IBM's services business is believed to have caught the boss's eye.

## Presiding genius

Are Benny Gaon's days as chief executive at Israel's sprawling Koor group numbered? This week's move by the Claridge Group to become a 20 per cent shareholder looks ominous for the ebullient Gaon, whose surname means genius in Hebrew. It's understood that Claridge - controlled by Canadian Jewish businessman Charles Bronfman - wants eventually to gain full control. Claridge is taking strategic advice from hot law firm Herzog, Fox, Neeman. In a recent book, Gaon was less than flattering about the firm's senior partner Jacob Neeman - recently elevated to be Israel's finance minister. Herzog, Fox, Neeman acted for the consortium of foreign bankers which wrestled with Gaon over the refinancing of Koor when the group was all but bust at the end of the 1980s. Gaon survived that episode. But it seems unlikely he will figure in Claridge's plans.

## On the rocks

Barclays Bank's ill-fated venture into Greek ship

financing ended this week with the transfer of its shrunken loan portfolio to Midland Bank, a leading conservative UK player on the Pireaus waterfront. But Nikos Koros, the shipowner who talked Barclays into backing his disastrous shipbuilding venture in Romania in the early 1990s, is still in business - just.

Koros had the bright idea of ordering eight chemical tankers from the state-owned Tulcea yard on the Black Sea. Barclays handed over \$120m in loans - about 20 per cent of its total portfolio - to Blue Flag Navigation, the Koros outfit.

But the company couldn't persuade the Tulcea workers to get on with the job. Four years past the delivery date, just two of the eight tankers seem likely to be completed. Koros's 20-ship fleet has now dwindled to half-a-dozen elderly vessels which are trading under new names and no longer fly the Blue Flag banner.

## High value

Souraway Dutch blue-chip stock prices seem to have inspired pilots of the national flag carrier KLM. They've offered to cut their pay demands in return for shares. That way they could join the Dutch business-class high-flyers who've seen their guilders multiply in Amsterdam's bull market.

## Financial Times

## 100 years ago

**Insurance Notes**  
In big type and in small, heading conspicuous advertisements and coming quietly in at the tail-end of minor ones, in season and out of season, the Equitable of the United States is constantly shouting the statement that it is the "Strongest Life Office in the World." We are tired of it. The claim is a piece of pure "bunkum" which would be laughed at if it were made by a small concern; and we see no reason why the absurdity should be allowed to pass merely because it is uttered by a big one. We have no unfriendly feeling to the Equitable, as our columns have borne witness... We hope that this objectionable and grotesque statement will now be withdrawn from use.

## 50 years ago

**Shipyards At Bustiest**  
Work in hand at British shipyards is running at the highest level since March, 1922, and actual output - that is, completed vessels - is now expected to reach 1,000,000 tons in 1947. The industry's own "target" was set at 1,500,000 tons but this was based on adequate supplies of steel, timber and other materials. The new output estimate of 1,000,000 tons is based on the assumption that there will be no fuel crisis or other serious development.



## Polly the cloned lamb can deliver human proteins

By Daniel Green in London

Polly is a lamb with an eye for the market. Only two weeks old, she has already gambolled ahead of Dolly, her ovine predecessor who made cloning a global household word.

Polly is a clone too. But she has an added ingredient: a human gene.

That gene will produce a human protein in Polly's milk. The protein can be extracted and given to patients who lack it.

The company behind Polly, Edinburgh's PPL Therapeutics, plans to produce a flock of Pollys, making proteins for a range of diseases from haemophilia to osteoporosis.

Polly is the first transgenic sheep created using cloning technology and represents a crucial step in the commercialisation of the technique.

"This is a realisation of our

### Commercial application of technique is nearer

vision to produce instant flocks or herd which express high concentrations of valuable therapeutic proteins very quickly," said Dr Alan Colman, PPL's research director.

Transgenic sheep have existed for several years; the first was Tracy in 1992. But the technology behind them meant that only in December 1996 did the protein in Tracy-like sheep enter clinical trials, for treating cystic fibrosis.

The cloning method guarantees that every lamb will be female and allows for a flock to be created in a single generation. Proteins produced in Polly-like sheep could enter trials as early as 1999.

The cloning technique involves adding a human gene to the nucleus, which contains the genetic material, of a sheep cell. This cell is fused with a sheep embryo cell from which the nucleus has been removed. The resulting embryo is transplanted into an adult ewe where it grows into a lamb.

Polly earned her name because she is of the Poli Dorset breed, although her surrogate mother is a Scottish Blackface.

She already has two sisters, but scientists at PPL and the publicly-funded Roslin Institute next door are not yet certain that they also have the

human gene. The next step in the research is to refine the addition of the genes so that they are placed more accurately within the nucleus.

This should increase the amount of protein in the milk and help the technique to be applied to cows, which produce much more milk than sheep.

It should also allow scientists to replace rather than just add genes. This is vital to a plan to farm pigs whose internal organs can be transplanted into people.

Roslin and PPL scientists need to remove the genes that make proteins that make the organ look pig-like to the human immune system. Unless the organ looks like a human's, the immune system will reject it and the patient will relapse. Such "xenotransplantation" is still several years away.

## Boeing plan for merger approved

Continued from Page 1

Rexrodt, economics minister, called for Airbus to be restructured.

"The first step must be a reorganisation of Airbus Industrie from a loose consortium to a unified corporation, at best in the form of a public company," he said.

Mr Van Miert, pointing out that increased globalisation would lead to similar competition cases, called for a revival of talks in the World Trade Organisation to improve the co-ordination between the EU and US on competition issues. "We have suggested within the WTO creating a separate structure to deal with competition issues," he said.

## Stet avoids Helms-Burton

Continued from Page 1

Jesse Helms, author of the legislation and chairman of the Senate foreign relations committee, said the deal confirmed his suspicions that the US administration was going slow on implementing Title IV.

Although the State Department is responsible for applying Title IV, some members of Congress would like to compel it to enforce the provision more strictly.

So far, only two companies - Sherritt, a Canadian mining company, and Grupo Domos, a Mexican telecoms firm - have had executives barred from the US under Title IV.

Stet is a partner of Grupo Domos in a telecoms project in Cuba.

## Asean admits Burma and Laos but not Cambodia

By Ted Bardacke in Kuala Lumpur

Burma and Laos were admitted as members of the Association of South-East Asian Nations yesterday amid continuing controversy over the group's attempts to broker a settlement in strife-torn Cambodia.

As Asean prepared to open its 30th anniversary summit in Kuala Lumpur today, Mr Hun Sen, the Cambodian leader, requested the association play a mediating role in spite of having earlier snubbed a similar offer.

Mr Abdullah Ahmad Badawi, the Malaysian foreign minister, said Asean believed the two-party coalition in Cambodia should be restored. The coalition emerged from 1993 UN-sponsored elections and was toppled earlier this month in a coup led by Mr Hun Sen, the "second" prime minister.

He was supported by Mr Stephen Soltau, the US envoy, who met Mr Badawi earlier in the day and is set to meet Mr Hun Sen and Prince Norodom Ranariddh - who Asean still recognises as Cambodian's "first" prime minister - in the next few days.

Mr Soltau reiterated the US position that Prince Ranariddh should not be replaced. Cambodia should have joined Asean with the two other entrants yesterday, but its invitation was frozen after the coup.

Mr Badawi said: "This ceremony would have been - but for an unfortunate turn of events - a ceremony to admit three countries instead of two. It is keen to end the uncertainty that we view the course of events in Cambodia in the last couple of weeks."

Mr Badawi was speaking after the foreign ministers of Indonesia, Philippines and Thailand met Mr Ung Huot, who is expected to be confirmed as Cambodia's first minister, on the margins of Asean's annual ministerial meeting.

Burma and Laos join Asean's five founders - Indonesia, Malaysia, Philippines, Singapore and Thailand - and two later entrants, Brunei and Vietnam, to create a nine-country grouping considered Asia's most important political and economic organisation.

On the 30th birthday of an association that has always abided by the principle of non-

intervention in the internal affairs of member states, Asean foreign ministers made it clear yesterday that it was not only Cambodia that weighed heavily on their minds.

Potential problems in military-ruled Burma were forcing Asean to examine its entire *modus operandi*, said Thai foreign minister Mr Prachin Chaiyavan.

"As Asean becomes more open, as growing interdependence means events in one country can send shock waves throughout the region, we need to rethink some of our most basic assumptions, ranging from the meaning of development and co-operation to the implications of non-intervention," he said.

Other ministers were more moderate in their language. "The principle of non-interference... should be scrupulously adhered to," said Mr Badawi. "However... gentle reminders from fellow Asean brothers should be accepted in the spirit of maintaining the unity and credibility of Asean," he added.

Asean Cambodian role, Page 4  
Editorial Comment, Page 11

## Drinks giants weigh LVMH link

Continued from Page 1

diversity, "there is no evidence that there is a complete share discount". Mr McGrath said. But he said Guinness and GrandMet were going to "look very unemotionally, on a factual basis" at an 18-page proposal from Mr Arnault.

They believe a combination of

the three companies' spirits businesses could enhance shareholder value. And they are keen to end the uncertainty created after Mr Arnault called in arbitrators over the future of joint ventures in drinks distribution between Guinness and Moët.

Mr McGrath said investors were already convinced the

merger of Guinness and GrandMet would create significant shareholder value - as the rise in shares of each company after the May 12 announcement showed.

Shares in GrandMet closed down 5p at 617p yesterday, while Guinness closed off 6p at 691p. LVMH closed off 67 francs at FF71.626.

### THE LEX COLUMN

## Paradigm paradise

Have markets misread Mr Alan Greenspan? His Humphrey Hawkins testimony to Congress has been widely interpreted by investors as a reason to pile into shares and bonds. Certainly he was in a more benign mood than last December when he warned about the dangers of "irrational exuberance". This time he said financial markets were merely "buoyant" - despite Wall Street's near 30 per cent rise in the interim.

Yet it was Mr Greenspan's enthusiastic discussion of the "new paradigm" economy - which assumes US productivity growth has shifted on to a higher trend - that really sparked markets. He remained exquisitely agnostic about the extent to which this has been achieved, but said enough to suggest he thought it credible. The danger, of course, is that Mr Greenspan's frank discussion will be misunderstood. Instead of noting his caveats, investors may conclude that economic nirvana has arrived and take it as a screaming buy signal. That would be ironic - arguably the best reason for higher rates is the need to take the steam out of the markets.

On inflation grounds alone, there is little case for a policy tightening at present. But the possibility of an early move should not be wholly discounted. Only yesterday one of Mr Greenspan's colleagues was warning of the need to be pre-emptive. Another hinted heavily that the economy is already in inflation overshoot territory. Mr Greenspan's comments do not constitute a licence for complacency.

Eurotrack 200 index  
2732.2 (+55.5)



sector Landesbanken and Sparkassen - 70 per cent of the market - is likely to be even slower.

Meanwhile, share prices seem to have lost touch with fundamentals. Profitability is improving: Deutsche's half-year net income increased 27 per cent. But a third of its profits now comes from investment banking, buoyed by the bull market. Even so, Deutsche and its peers will struggle to produce a 10 per cent return on equity in 1997, yet they trade at 2.5 times book value. In the UK, the average price to book ratio is 3.3 times, but the banks are more than twice as profitable. And in France, where return on equity is 11 per cent, the price to book ratio is only 1.8 times. German banks look overvalued.

### Reuters

Sterling's strength and obstacles to returning large sums of capital to shareholders may be the immediate causes of Reuters' misery. But the longer-term doubts centre on whether the group can recapture its status as a high-growth stock. In particular, can Reuters turn the threat posed by the internet to its advantage?

For the first time yesterday, the company sounded fairly positive on this score. The use of low-cost internet-type technology gives it the capacity to break out of the dealing room. In the financial sector, this means distributing variations of its existing data over corporate intranets to employees who could not previously justify the cost of a dedicated Reuters terminal. It also means selling beyond the financial sector. In an early sign that this is working, Reuters' revenue from

professional products grew 26 per cent in the first half - albeit from a low base.

The snag, of course, is that the further Reuters steps beyond its core foreign exchange niche, the less users will be willing to pay and the more competition it will face. This was already visible in its first half results: revenue per user of its information products fell 7 per cent. Reuters probably has little choice but to sacrifice premium pricing in a drive for volume. And with a good brand, products and technology, it has some of the ingredients needed to succeed. The doubt, as ever, is whether it is pursuing the opportunity with sufficient vigour.

### BOC

Anaesthetic gases have been causing sleepless nights round at BOC over the past few years. So the group's decision to sell its health care business and focus on the more stable production of industrial gases justifies yesterday's 7 per cent jump in the shares.

On top of that, BOC might get a surprisingly good price. While healthcare profits halved over the past five years as the group's first anaesthetic lost its patent, return on capital has now stabilised at a respectable 16 per cent. And the division is developing new products, including inhaled nitric oxide for treating respiratory failure in infants. That should interest not only Abbott, the main rival, but others with anaesthetic products, including Baxter, Astra and Zeneca. In an auction, the division could fetch twice this year's estimated sales, or \$500m-\$1bn.

That would help BOC fund capital spending of over \$500m a year. But it should also consider acquisitions. Although it is world number two in industrial gases with a 16 per cent share, BOC has virtually no presence in continental Europe. Sweden's Aga would be a good fit, but also a big bite given its £2bn capitalisation. Germany's Messer Griesheim might be more manageable. A multiple of 1.5 times last year's DM2.4m turnover suggests a price of around £1.2bn. And Hoechst, which owns two-thirds, wants to sell out.

But any deal will have to take account of the tax position of the founding Messer family, which holds the remaining third.

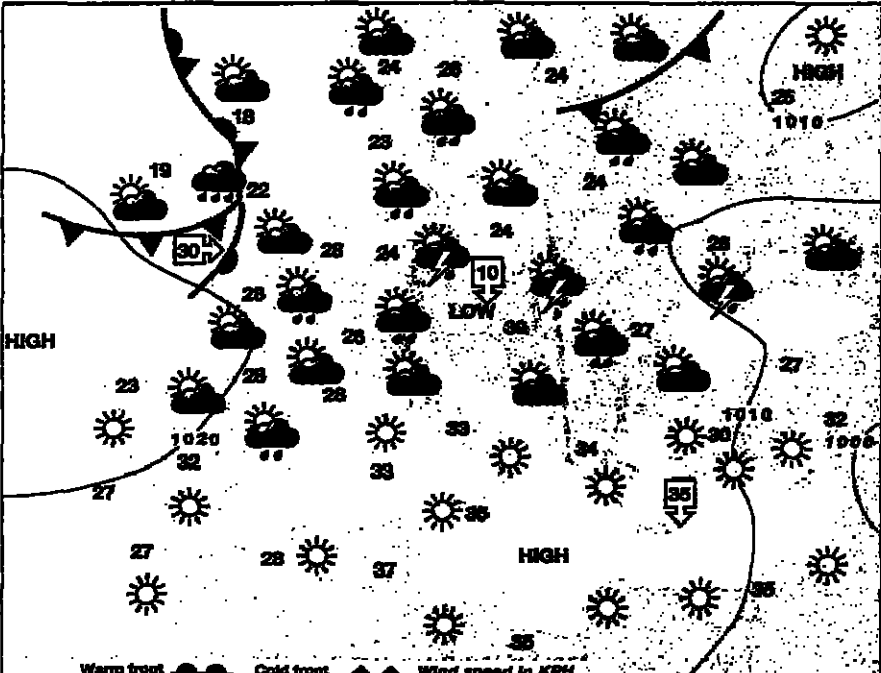
Additional Lex note on Nationwide building society, Page 18

### Europe today

The Mediterranean will be fine and hot with newly unbroken sunshine, although there may be isolated thunderstorms over the hills of northern Greece and more widespread showers in northern Spain. The central strip of Europe, from France to Poland, will be warm and humid with sunny spells and scattered heavy showers or thunderstorms. Much of southern Scandinavia will also be showery but northern Scandinavia and much of Russia should be fine and settled with patchy cloud and sunny periods.

### Five-day forecast

Most of the Mediterranean will be hot and sunny but northern Greece and the hills of northern Italy can expect thunderstorms. Central Europe will continue warm but scattered thunderstorms are likely. Scandinavia will start warm with sunny spells and occasional showers but will turn cool and unsettled by Monday.



### TODAY'S TEMPERATURES

	Maximum	Beijing	
	Celsius	Beifast	
Abu Dhabi	Sun 41	Belgrade	
Accra	Fair 28	Berlin	Sho
Algiers	Sun 30	Bermuda	
Amsterdam	Fair 25	Bogota	
Athens	Sun 34	Bombay	
Atlanta	Thunder 31	Brussels	
B. Aires	Fair 18	Budapest	
B.Ham	Rain 20	C.Hapton	Sho
Bangkok	Shower 33	Cairo	
Barcelona	Thunder 26	Cape Town	

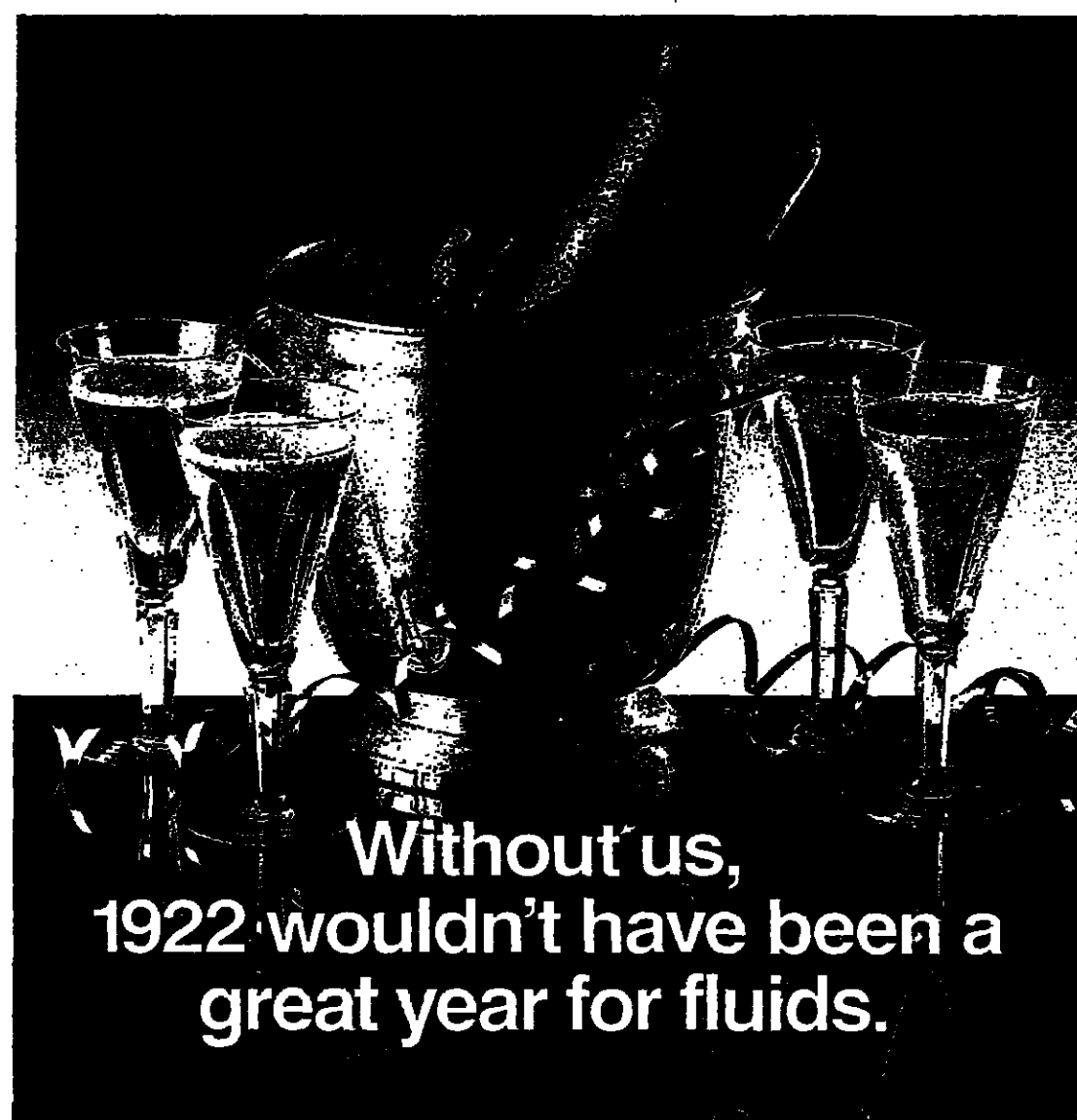
Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

Fair 30	Caracas	Thunder 32	Faro	Sun 28	Madrid
Fair 26	Cordif	Rain 19	Feridout	Shower 25	Malaga
Fair 23	Cosbaia	Sun 24	Ganewa	Thunder 28	Malta
Fair 30	Chiengma	Sun 28	Gibraltar	Sun 27	Manchester
Fair 30	Cologne	Fair 24	Glasgow	Rain 18	Marseille
Fair 17	Dakar	Fair 30	Hamburg	Thunder 22	Melbourne
Fair 23	Dallas	Fair 28	Helsinki	Sun 28	Montego Bay
Fair 24	Delfi	Thunder 33	Hong Kong	Thunder 32	Moscow
Fair 27	Dubai	Sun 41	Honolulu	Fair 32	Milan
Fair 23	Dublin	Fair 20	Istanbul	Fair 26	Montreal
Fair 28	Dubrovnik	Sun 32	Jakarta	Fair 32	Moscow
Fair 14	Edinburgh	Rain 19	Jersey	Fair 32	Murci
			Kanari	Sun 27	Nairobi
			Kuwait	Fair 34	Naples
			L. Angeles	Fair 24	Nassau
			Las Palmas	Fair 26	New York
			Lima	Fair 26	Nice
			Lisbon	Sun 29	Nicosia
			London	Shower 23	Oslo
			Luc. Bour	Shower 23	Paris
			Lyons	Fair 29	Perth
			Madrid	Sun 28	Rangoon

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## COMPANIES AND FINANCE: THE AMERICAS

## AlliedSignal on target for income growth

By Our New York Staff

Second-quarter figures from AlliedSignal, the diversified US manufacturer, reflect the extraordinary strength of the US economy, with strong growth in volume and productivity, and no price inflation.

Net income in the three months rose 16 per cent to \$305m, or \$1.08 a share. Mr Lawrence Bossidy, chairman and chief executive, said the group was on course to achieve its goal of earnings growth of 13-17 per cent this year.

Its long-term target was revenue growth of 12 per cent a year, of which a third would come from acquisitions, he added. Although the group was involved in a number of mature product areas, strong internal growth could be expected from areas such as aerospace, and from niche products in the materials and automotive business.

Productivity in the quarter rose 6.9 per cent, ahead of the long-term target of 6 per cent a year. Mr Bossidy said the next two years would bring further big gains from the so-called "Six Sigma" programme, aimed at eliminating defects in production and services.

Six years ago, when he joined the group, annual sales were about \$13bn from a workforce of 102,000. Sales this year would be around \$14bn, and the workforce stood at 77,000.

Although volume was up strongly in areas such as aerospace and automotive turbochargers, the group had experienced a small decline in selling prices across its product range as a whole in the quarter. "I see no inflation," Mr Bossidy said.

Steepest growth in earnings came from the aerospace business, where net income rose 28 per cent to \$115m thanks to the expansion of commercial aerospace production and improved sales of higher margin spare parts.

The engineered materials side rose 16 per cent to \$137m, but net income on the automotive side was marginally down at \$48m, the effect in part of strikes at General Motors and Chrysler in the US, two key customers for the group's safety restraint systems.

AlliedSignal is also continuing to

push into higher margin and growth businesses, with acquisitions completed or announced in the quarter that will add annualised sales of \$550m.

Mr Bossidy said AlliedSignal aimed to achieve half its revenues from the aftermarket, as opposed to original equipment, and half from outside the US. It was well on its way to achieving both these objectives, he said.

The group also announced a two-for-one stock split. Since the last stock split in March 1994, the share price has more than doubled.

## Steel group prepares to show its mettle

It is a long time since the steel industry created as much excitement in the stock market as now surrounds the flotation in New York and Amsterdam of Ispat International, the fast-growing, London-based group with a \$3bn price ticket.

Mr Lakshmi Mittal, the company's founder and chairman, is offering a 16 per cent stake worth about \$450m in a share sale set to take place early next month. Ispat, which has most of its operations in the Americas, is coming to market with an extraordinary growth record that has seen net profits soar from negligible levels at its foundation in 1989 to \$630m last year. In 1996, the net return on sales, which totalled \$1.8m, was 34 per cent. The profit figure includes gains from revaluing assets, but even without this contribution, net profits were \$262m - or 14.7 per cent of sales.

The figures invite three main questions from potential investors: how has Mr Mittal achieved this growth; can he maintain the momentum; and how can outside investors be sure of a fair share of the returns, when the founding shareholder will retain 97 per cent of the voting rights?

Mr Mittal, who is 47, was born into an Indian steel-making family. He struck out on his own in the 1970s in Indonesia, successfully turning an initial \$1.5m investment in rolling mills into an international steel-making empire.

The company's growth has been driven mainly by the acquisition of underperforming steel mills at low prices, often in privatisations. Ispat has revitalised these operations - in Mexico, Trinidad & Tobago, Canada, Germany and Ireland - by putting in new managers, cutting costs, investing in plant and expanding output.

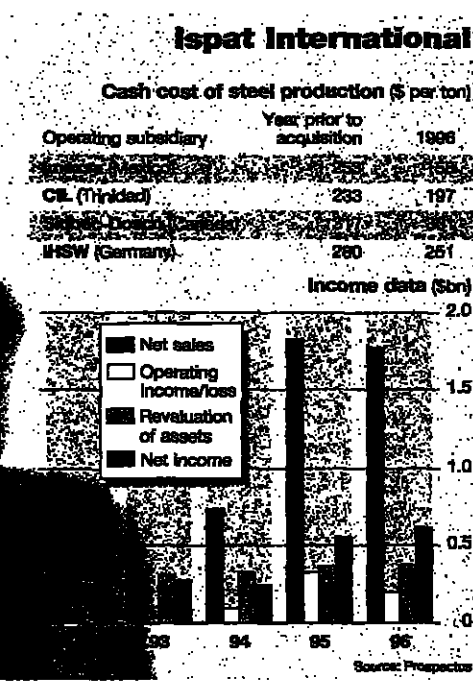
It has concentrated on producing steel in electric arc mini-mills, which can make steel effectively in flexible small units in contrast to traditional blast furnaces. Most mini-mills operate by converting scrap steel into marketable products, which is highly profitable when scrap is cheap. But the success of mini-mills has driven up scrap prices over the past 20 years and squeezed margins. So, steel companies have developed direct reduced iron (DRI) method of processing iron ore into mini-mill feedstock.

Mr Mittal was among the first to grasp the full commercial opportunities of DRI and has made Ispat the world's largest producer of DRI, with an output last year of 5m tonnes.

The jewel in Ispat's crown is Mexico, where the company has increased output per employee fivefold since acquisition. Mexico last year accounted for 37 per cent of group sales and 63 per cent of operating profits. Its operating margin was 18.8 per cent. By comparison, Caribbean Ispat managed an 11 per cent margin and Siderurgica del Orinoco 8.6 per cent, while Ispat Hamburg



Lakshmi Mittal, Chairman



Siderurgica del Orinoco (Sidor), the state-owned Venezuelan steel company, if the government goes ahead with privatisation. With an annual output of 2.9m tonnes, this would bring Ispat's capacity to nearly 11m tonnes and take the group into the world's top 10 producers.

Analysts forecast the group could see sales and net earnings growth of 20 per cent a year over the next few years and become the world's biggest steelmaker by 2010.

However, investors need to consider some potential

problems. First, the headline net profit figure includes profits from a revaluation of assets, which is now virtually complete and will not bring big gains in future. As the prospectus says, US rules would not have allowed the gains to be included in net profits. US-style figures are given separately.

Ispat is also being lumbered with a two-tier share structure, so Mr Mittal can raise capital without relinquishing almost complete control. The A shares on offer will have only one tenth of the voting rights of B shares which Mr Mittal

will retain. He will keep 97.5 per cent of the voting rights, or 97.1 per cent if extra shares are put into the sale under a "greenshoe option".

Moreover, Mr Mittal is keeping an important chunk of his business out of the flotation. Neither the Indonesian mills nor the giant Karman steelworks in Kazakhstan are included. These are in the prospectus under the heading "potential conflicts of interest".

Finally, there is the all-important question of price. The company says it plans to retain earnings for future growth and pay only "nominal" dividends - so the main return to shareholders will be through share price growth.

At the indicated price of \$22-\$26 a share, the historic price/earnings multiple is about 21, based on earnings of \$1.12 a share for the year to March 1997, excluding the revaluation gains. For the year to December 1996, analysts expect strong growth to take earnings to perhaps \$1.80 a share, giving a prospective multiple of about 13.5.

This is a modest discount to Nucor, the fast-growing US mini-mill group to which Ispat is often compared, and which trades on a prospective multiple of about 14.5. It is a high price for Ispat, given that its main operations are located in a risk-prone developing country. The entrepreneurial Mr Mittal must work hard to justify the premium rating.

Stefan Wagstyl

## Oil companies produce mixed results

By Christopher Parkes in Los Angeles

The flow of mixed second-quarter results from US oil majors continued yesterday as lower crude oil prices helped sharpen the performance of downstream operations and ate into earnings from exploration and production.

Mobil, reporting earnings

per share up from 98 cents to \$1.06, credited strong operating results at its US refineries and efforts to step up volume sales in all divisions.

Net income, excluding a \$30m charge for its refinery restructuring, rose 8.5 per cent from \$783m to \$850m. Income from chemicals rose \$26m to \$91m. Chevron's earnings per

share slipped from \$1.34 to \$1.26, reflecting a charge for a stock option scheme. Discounting one-off charges, net income rose 20 per cent from \$700m to \$837m.

Upstream divisions overrode the effects of reduced crude rates due to higher production and reduced taxes on some overseas operations. Chemicals profits improved as a result of lower

feedstock prices and volume sales increases.

Unocal, which recently sold its Californian oil refining and gas assets, reported earnings per share down at 48 cents from 52 cents, and said its results had been affected mainly by lower prices for crude and natural gas and increased international exploration costs. Shell Oil, the US subsid-

iary of Royal Dutch Petroleum, said losses on chemicals in the second quarter of last year had been turned into profits of \$155m this time.

Net income was up 15 per cent at \$31m, due in part to a tax adjustment gain of \$55m. Exploration and production income was down \$45m from a year ago at \$262m.

## DuPont advances 14% in quarter

By Tracy Corrigan in New York

DuPont, the US chemicals company which bought a large part of ICI's industrial chemicals business earlier this month, yesterday reported record quarterly earnings of \$1.1bn, up 14 per cent from last year.

The group said the increase was driven by 10 per cent volume growth in chemicals and specialty businesses and continued strength in its oil division.

"We continue to make progress in growing businesses where we have both a low-cost and technological advantage," said Mr John Krol, president and chief executive.

Earnings per share of \$1.01, up from 89 cents a year ago, were in line with analysts' expectations. Sales for the quarter totalled \$11.4bn, up 2 per cent on the previous year. Chemicals and specialty chemical sales rose 6 per cent, to \$6.5bn, on a volume increase of 10 per cent, but were offset by a 4 per cent fall in average selling prices.

Earnings from Conoco, DuPont's oil business, were up 13 per cent at \$246m, despite a 2 per cent decline in sales to \$4.9bn.

However, the effects of lower crude oil prices and higher exploration costs were limited by a 105 per cent climb in downstream earnings to \$88m, as a result of higher product margins, the company said.

DuPont shares rose \$1 1/2 to \$87 1/2 in early trading, although analysts said the results contained few positive or negative surprises. "We are in a market where no bad news is good news," said Mr Paul Leming, chemicals analyst at DMG.

Mr Leming said the recent purchase of ICI's titanium dioxide, or white pigments, business was a good fit with DuPont's operations, although the logic of its purchase of the UK company's polyester arm was as yet unproven.

## Liberalisation hits profits at Telmex

By Daniel Dombey in Mexico City

The rigours of life in a liberalised market pushed down second-quarter sales and profits at Telefonos de Mexico (Telmex), the country's former telecommunications monopoly.

But although long distance revenues were sharply down, local revenues increased significantly.

Midway through New York trading yesterday, the company's American Depository Receipts had edged up 1 per cent to \$50 1/2.

"The most important factor in Telmex's first half performance has been the opening of the Mexican market to competition," said Mr Adolfo Cerezo, chief financial officer.

The company has retained a 75 per cent share of subscribers in the 60 cities where long distance competition has been introduced, and Mr Cerezo said that the company's revenue per line was broadly the same as that of its competitors.

Telmex's second-quarter net profit was 2.6bn pesos (\$500.7m), a drop of 34.5 per cent on the same period in 1996. The company blamed the fall on the effect of interest and exchange rates on the value of its holdings, as well as the impact of its operating results.

Total sales for the quarter were 13.6bn pesos, 0.7 per cent below the same period a year before. But the incremental change masked significant shifts in the composition of Telmex's revenues.

International long-distance revenues fell 36 per cent to 2.5bn pesos, while national long-distance sales declined 11.1 per cent to 3.8bn pesos. Despite lower prices, the total number of minutes billed for international long-distance calls rose by only 1.4 per cent compared with the second quarter of 1996.

Meanwhile, local service revenues jumped to 6.6bn pesos, up 30 per cent on the second quarter 1996, largely because of a continuing drive to increase local rates. Up to now, the wafer-thin margins of the local business have rendered it a virtual monopoly.

However, Telmex received less revenue than expected from connecting other operators to its network. Interconnection fees totalled only 156m pesos, which may indicate that the group's rivals are bypassing Telmex and installing private lines for their clients.

Mr Cerezo added Telmex planned capital expenditure of between \$1.1bn and \$1.3bn this year, largely on improving local infrastructure, and that it would continue with its share buy-back programme. Telmex also announced yesterday that it was planning to issue 90m pesos of commercial paper.

## AMERICAS NEWS DIGEST

## United Tech powers ahead

Growing demand for commercial aircraft engines helped power United Technologies' profits to a better-than-expected \$1.17 a share in the second quarter, up from 98 cents last time and 8 cents better than Wall Street predictions. As in the first quarter of this year, foreign currency fluctuations had a negative impact, lopping \$149m off revenues and an estimated 4 cents from earnings per share.

Operating profits at its Pratt & Whitney engines division rose 31 per cent in the quarter to \$210m from \$160m as revenues surged 27 per cent to \$1.94bn compared with \$1.53bn in the same part of last year.

Flight systems operating income rose 11 per cent and the Otis elevator division reported a 3 per cent improvement. Group revenues were 7 per cent higher at \$6.5bn. Christopher Parkes, Los Angeles

## COMPUTER NETWORKS

## IBM and 3Com expand alliance

IBM and 3Com, the networking equipment group, have strengthened and expanded their networking alliance to cover office workgroup and building-to-building "backbone" data networks. The companies said they had agreed to further technology exchanges and a re-marketing agreement as part of their extended alliance.

They said their agreement, which highlights the integration of the data processing and networking sectors, would make it easier for customers to install and use quickly software applications that require high-capacity data networking links. These include video-conferencing, on-line financial trading, distance learning, medical imaging and electronic banking and shopping.

As part of the agreement, IBM said it planned to offer its own versions of 3Com's Superstack family of switches aimed at corporate departments, and to provide high-speed ATM (asynchronous transfer mode) connections to some of its future products.

Observer, Page 11

Paul Taylor

## US AIRLINES

## TWA and US Airways slip

Trans World Airlines and US Airways both reported a fall in profits for the second quarter yesterday. Shares in US Airways slipped 1 1/4 to \$37 1/2 in early trading after it announced earnings per share of \$2.46 for the quarter, down from \$2.71 in the second quarter of 1996. Net profits were \$206.5m for the quarter a 2.4 per cent increase over the second quarter of 1996.

TWA shares suffered less, slipping \$ 1/2 to \$6 1/2 on the back of a net loss of \$14.4m, and operating profits of \$5.9m, for the second quarter, both down significantly on the same period in 1996 when operating profits were \$62m and net profits \$25.3m.

Mr Gerald Giltner, TWA chairman, blamed the "disappointing" results on revenue per traveller mile covered, which slipped from 11.93 cents to 11.80 cents. He said: "The reason for this yield problem is clear. TWA has not yet reclaimed its share of the premium fare business travel market."

John Authers, New York

## TRANSPORT

## Canadian Pacific advances

Buoyant rail and shipping business helped propel Canadian Pacific to a 34 per cent advance in second-quarter earnings. The transport and resources group's net income climbed to C\$241m (US\$174m), or 70 cents a share, in the three months to June 30, from C\$179.8m, or 53 cents, a year earlier. Revenues rose to C\$2.34bn from C\$2.05bn.

CP Rail, one of Canada's two national railways, contributed C\$78.8m, up from C\$44.2m. The increase was spurred by higher grain, potash and intermodal traffic.

CP Ships posted record earnings, with operating income up 58 per cent. Pressure on rates was offset by higher container volumes. CP Ships is in the throes of acquiring Lykes Lines, a well-known US carrier.

Bernard Simon, Toronto

## ENTERTAINMENT

## Time Warner settles with News

Time Warner will put News Corp's Fox News channel on Time's New York cable-TV system in a deal to settle a dispute between them, the two companies said. All outstanding litigation between Time and News Corp will be discontinued, as will all litigation between Time Warner and News Corp.

The terms of the settlement were not disclosed, but it ends a dispute that started after News Corp was unable to get space for Fox News on the Time Warner system in New York.

A bitter squabble broke out between executives from the two companies, and News Corp filed a lawsuit.

The battle eventually involved New York mayor Mr Rudolph Giuliani, who had offered one of the city channels, but Time Warner legally blocked that move.

Reuters, New York

## MEXICAN MEDIA

## Televisa chief quits

Mr Guillermo Canedo White has resigned as chief corporate officer of Televisa, the giant Mexican media group, in the wake of a prolonged battle within the company. The company was unable to confirm reports that Mr Canedo and his brother José Antonio had sold their joint 10 per cent stake to Mr Emilio Azcárraga Jean, Televisa chief executive, for \$200m. The company's market capitalisation is \$4.5bn.

Mr Canedo had been widely respected as the public face of the company during difficult times, but his resignation had been expected for some time. After the death earlier this year of Mr Emilio Azcárraga Milmo, the current chief executive's predecessor and father, it was Mr Canedo who soothed investors with a cost-cutting plan that aimed to save \$270m over three years.

But he fell victim to a move against him by Mr Alejandro Buitrago, a cousin of the Azcárragas and a large shareholder. The company now lacks a chief financial officer, another of Mr Canedo's former jobs.

Daniel Dombey, Mexico City

## CANADIAN ENERGY

## Imperial Oil ahead 59%

Imperial Oil, Canada's largest integrated oil company, posted a C\$183m (US\$132m) profit in the second quarter, a 59 per cent increase over the same period last year. The company's output of crude oil and liquids increased to 265,000 b/d from 247,000 b/d in the second quarter last year. Revenue was up slightly to C\$2.61bn from C\$2.60bn. Imperial, in which Exxon, of the US, holds a 68.9 per cent stake, said its earnings were bolstered by increased heavy oil production at its recently expanded plant in northern Alberta, and improved performance at its chain of Esso gasoline stations. Natural gas sales during the quarter rose more than 25 per cent over last year.

Imperial's first half profit was C\$374m on revenues of C\$5.29bn, compared with earnings of C\$469m on revenues of C\$4.98bn last year, results which reflected a C\$250m gain from tax refunds.

Scott Morrison, Vancouver

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**RHEINMETALL**

**Badenwerk**

**BRITISH AEROSPACE**

have acquired

**STN ATLAS HOLDINGS GMBH**

from the Trustee in bankruptcy  
of Bremer Vulkan, Dr Jobst Wellensiek

**Rothschild GmbH**  
Frankfurt am Main

acted as financial advisor to the Seller







## COMPANIES AND FINANCE: EUROPE

## Deutsche Bank signals French purchase

By Andrew Fisher  
in Frankfurt

Deutsche Bank, Germany's biggest, yesterday signalled it was looking to expand in France by acquiring a bank or financial services network to sell retail investment products.

Mr Rolf Breuer, chairman, said France was the biggest potential market of the single European currency after Germany, and further growth there had a high priority. "This is one of the biggest things we are looking at," he said.

The group needed increased distribution for its asset management business in France, he added.

His comments fuelled speculation about financial services restructuring after Monday's announcement of the merger between Bayerische Vereinsbank and Bayerische Hypothek- und Wechselbank.

However, Mr Breuer gave no details and said the attitude of the new leftwing government in France to greater

foreign bank activity and privatisations would determine strategy.

He also announced a 27.5 per cent rise in net income to DM1.49bn (\$822m), with earnings per share up from DM2.30 to DM2.90. This was slightly above analysts' expectations.

"We are confident that, if the markets remain favourable, we shall be able to achieve a higher profit for the whole of 1997 than last year," he said.

Investment banking made a strong contribution. The group's Deutsche Morgan Grenfell unit earned as much profit in the first half as in all of 1996. It contributed DM835m to group operating profits of DM2.86bn, which were 11.4 per cent up on the first half of last year.

Financial trading profits, strongly influenced by investment banking, rose 48 per cent to DM2.04bn, though Mr Breuer said this pace would not necessarily be repeated in the second half.

Net interest income rose

7 per cent to DM5.7bn, with net commission income jumping 26 per cent to DM4.15bn. The bank cut its risk provisions 35 per cent to DM529m, saying the quality of the loan portfolio had improved.

Pre-tax profits increased 24 per cent to DM2.8bn.

Costs rose 27 per cent to DM8.9bn, reflecting continued foreign expansion in investment banking. Mr Breuer said cost management would slow the growth in expenses in the second half.

Mr Jürgen Krumnow, a director, said the bank would adopt a tough policy towards costs, especially outside Germany. It planned to save DM1bn on budgeted annual costs by the end of this year.

For example, the bank plans to concentrate trading activities, currently carried out in 35 centres, into five centres: Frankfurt, London, New York, Tokyo and Singapore.

Lex, Page 12

## Deutsche Bank



Rolf Breuer: further growth in France is 'one of the biggest things we are looking at'

## 'It's a wonderful day for European banks'

By David Owen in Paris

Yesterday's comments by Deutsche Bank helped produce a stampede for French bank shares in heavy trading on the buoyant Paris stock market.

Shares of two banks - Banque Nationale de Paris and Crédit Commercial de France - were briefly suspended for a cooling-off period in brisk morning trading.

By the end of the day, leading bank shares had registered gains of between 5 per cent and 10 per cent, compared with just under 3 per cent for the benchmark CAC-40 index.

BNP and CCF were at the top of the pile, rising 10.1 per cent and 7.8 per cent, respectively.

Paribas was not far behind, climbing FFR28.30, or 7 per cent, to FFR430.70; Société Générale rose

FFR45, or 6.1 per cent, to FFR783 and Crédit National was up FFR18.60, or 5.2 per cent, to FFR376.50.

Analysts attributed the surge to expectations of European bank restructuring.

Although these were reinforced by the Deutsche Bank comments, they had already been ratcheted up by this week's big German bank merger.

"It has been a wonderful day for European banks," said Mr John Leonard, European banking analyst with Salomon Brothers in London.

Some also suggested that French bank stocks had underperformed many of their European counterparts for a considerable period and that their time was ripe to make up some of this leeway.

Yesterday's developments came

less than a week after France's new Socialist government cleared the way for the break-up and sale of GAN, the state-controlled insurance group.

GAN controls CIC, the regional banking network.

Severe opposition forced France's previous centre-right administration last year to scrap plans to sell a majority stake in CIC to a rival French bank.

## Hoechst in spin-off talks EdP in phone bid group

By Graham Bowley  
in Frankfurt

Hoechst, the German chemicals and pharmaceuticals company, has been in talks with several companies as part of negotiations to spin off its European textile fibres division.

It said yesterday it was also considering floating Messer, its industrial gases and welding unit. But it said any move would not happen before next year.

Messer, which is two-thirds owned by Hoechst, would have to be transformed from a limited liability company into a company with a full shareholding structure before it was listed, Hoechst said.

The decision to spin off the European textiles fibres division, part of Hoechst's Trevira group, comes amid a slump in the European

textiles industry. The division has struggled as the focus of the textiles industry has shifted from Europe towards Asia, where local producers have preferred to use local suppliers.

Hoechst said it was considering a number of solutions for its textiles fibres unit, which could include a joint venture.

It confirmed that it had been in talks with Polysud, an Indonesian company, among others.

Mr Jürgen Dormann, chairman, said at the group's annual shareholders meeting earlier this year that he was considering "further development options", including partnerships, for Trevira.

Hoechst has radically restructured, transforming itself into a holding company in which its individual divisions have become

legally independent companies which operate under the strategic management of Hoechst.

● SGL Carbon, one of Germany's most successful companies over the past two years, has stepped up its push into world markets with the purchase of three US and UK carbon fibre-related companies.

SGL Carbon, whose shares, until recently, have been a top performer since its demerger from Hoechst, said its US division had bought Hico Technologies, a specialist in carbon fibre components in the US.

It has also acquired PG Lawton, the UK carbon fibre processor, through its Scottish subsidiary and a 60 per cent stake in David Hart, a specialty graphite machine shop in Alcester, UK. The company gave no details of prices.

By Peter Wise in Lisbon

Mr Belmiro de Azevedo, Portugal's leading entrepreneur, and the state-controlled Electricidade de Portugal, have joined forces to bid for the country's third mobile telephone licence.

In an unprecedented alliance between the public and private sectors, Imparsa, spun off from Mr de Azevedo's Sonae conglomerate in 1996, will hold a majority stake in the consortium.

A strategic foreign partner is being sought and analysts said Cable and Wireless, the UK-based telecommunications group, is a frontrunner.

The consortium already includes two other public-sector companies - Transgas, the natural gas operator, and Gas de Portugal, a gas distributor - as well as Maxitel, a telecoms company.

"It is difficult to imagine a consortium more likely to win the licence or a group that poses a more powerful threat to customer franchise of the two existing mobile phone operators," said a Lisbon analyst.

The government is due to award the third licence by the end of the year.

Sonae, Portugal's biggest private-sector group with sales of Es451bn (\$2.46bn) in 1996, lost a 1991 bid for the second mobile phone licence.

Analysts said one of the biggest threats to the existing operators was the marketing potential of Sonae's supermarket chains and EdP's huge customer base.

Mr de Azevedo owns 52.1 per cent of Imparsa, demerged to handle the industrial holdings of his distribution-led Sonae group, and other diverse interests.

Portugal's second mobile

phone licence went to Telecom, now controlled by Air-Touch of the US. The first-established operator was Telecomunicações Móveis Nacionais, of the state-controlled Portugal Telecom group.

Telecel yesterday reported a 137 per cent increase in first-half net profit from Es2.56bn last year to Es5.85bn. It added 124,997 subscribers, reaching a total of 455,585, up 99 per cent from the end of June 1996.

The government has reserved 40 communications channels for the new operator, ensuring it will be able to compete on equal terms with existing licence holders using the digital Global System for Mobile communications standard.

The Imparsa-led consortium is believed to be committed to a start-up investment of about Es40bn.

## French bottling duo agree merger

By Samer Iskandar  
in Paris

Sidel, the French manufacturer of machines that make plastic bottles, yesterday announced a merger with Gebo, specialists in bottling assembly lines.

The combined group is expected to have annual sales of between FFR4bn and FFR4.5bn (\$655m-\$737m), up from FFR3.6bn for the two companies in 1996.

Sidel expects the merger to give it a headstart in beer bottling, a market in which Gebo achieved 68 per cent of its sales last year.

Mr Francis Olivier, Sidel chairman, said he was "convinced that beer will shift to plastic [bottling] on a large scale". Beer has a very short shelf life in existing plastic packaging.

Sidel is also optimistic that the globalisation of

plastic bottling will continue at an annual growth rate of about 14 per cent until the year 2000.

Mr Pierre Schoen, Gebo chairman, said the merger would have a positive effect on earnings per share from next year.

He added that Gebo would continue to diversify into sectors in which production speed was becoming a priority, such as cosmetics, pharmaceuticals and detergents.

Last year, Sidel's sales fell 15.8 per cent to FFR3.1bn and profits declined 30 per cent to FFR263m.

Gebo had sales of FFR495.3m, up 30.8 per cent from 1995, and net profits of FFR68.2m, up 49.5 per cent. A public offering of shares on the Paris bourse in June 1996 was 36 times subscribed.

The merger will take the form of a share exchange, at a rate of 21 Sidel shares for 10 Gebo shares.

## EUROPEAN NEWS DIGEST

## Eureko joins GAN suitors

Eureko, the north European insurance and financial services group, yesterday added its name to the list of potential bidders for GAN, the French state-controlled insurance company which the government confirmed last week it would privatise.

"We are confident that an integration with Eureko represents the best option," said Mr Jeff Medlock, chief executive of Eureko. "We will ensure that GAN retains its essential French identity while benefiting from [Eureko's] European network."

Eureko, Europe's seventh-largest insurance group with 32,000 employees and more than F1,500bn (\$38bn) in assets, said the acquisition of GAN would put it in third place. The group, which owns stakes in insurance companies in six countries - Germany, Sweden, Denmark, Portugal, the Netherlands and the UK - said it would float its shares in two or three years, in London, Paris and Amsterdam.

Several French and foreign insurance groups have also shown interest in GAN since France's new socialist government confirmed it would proceed with the company's privatisation as planned by the previous administration. French insurers MAAF and AGF are among the candidates, as well as the Zurich group of Switzerland and Allianz, the German insurer.

Samir Iskandar, Paris

## DEGUSSA

## Precious metals arm to be split off

Degussa, the German metals and chemicals group, yesterday raised the prospect of fresh restructuring when it revealed that it may split off its struggling precious metals division into a separate company in a renewed bid to make it more competitive.

However, the company stressed that the restructuring - which could come as soon as October - would not involve the sale of the division, which has annual sales of more than DM6bn (\$3.8bn) and about 3,000 employees. Analysts had anticipated a fresh move to boost shareholder value at Degussa after the purchase in May of a 36.4 per cent stake in the group by Veba, the German power and industrial group, for DM2.5bn. The group said in January that the performance of its precious metals division was unsatisfactory. It blamed a strong downturn in the electronics area, especially in the US.

Graham Bowley, Frankfurt

## PORTUGAL

## BCP ahead 21% in first half

Banco Comercial Português, Portugal's biggest commercial banking group, lifted first-half net consolidated profit 21.3 per cent from Es10.8bn in the same period last year to Es13.1bn (\$7.45bn). Earnings per share rose from Es91.6 to Es93.2, indicating that net income growth had offset the dilution of earnings caused by two capital increases in 1996 and 1997.

Income before taxes and minority interests climbed 31.1 per cent, from Es24.2bn to Es31.8bn. Mr Jorge Jardim Gonçalves, BCP president, said the group was ready to resume a strategy aimed at increasing market share after completing a restructuring process that followed the Es308bn acquisition of Banco Português do Atlântico two years ago.

Peter Wise, Lisbon

## BANKING

## New chief for Moscow Narodny

Russia's central bank yesterday moved to shake up the London-based Moscow Narodny Bank, in which it is a controlling shareholder, in an attempt to raise the commercial bank's profile in the UK. It announced the appointment of Mr Igor Suvorov as MNB's chief executive with a brief to introduce tighter financial controls and develop the bank's trade financing activities more aggressively.

"Trade links between Russia and Britain are not as strong as they could be. Moscow Narodny Bank must find more clients in London," Mr Sergei Alekashenko, a deputy chairman of the central bank, said yesterday. Mr Suvorov previously ran MNB's Singapore branch. The management shake-up follows the discovery earlier this year of a \$5m potential fraud against the bank involving a US customer with Ukrainian connections. Moscow Narodny has begun legal action to recover the money.

John Thornhill, Moscow

## PHARMACEUTICALS

## Elan jumps to \$40.1m

Elan, the fast-growing Irish pharmaceuticals company, lifted net profits in its second quarter to \$40.1m from \$28m in the same period a year ago. However, an issue of new shares in the takeover last year of Athena Neurosciences, the California biotechnology company, held earnings per share at 38 cents, compared with 34 cents a year ago.

Elan, whose shares are listed on the New York Stock Exchange, reported revenues for the second quarter up from \$67.8m to \$85.8m. Some \$45.6m of this came from product sales with most of the rest from royalties and fees. For the first six months, net income and earnings per share were \$77.3m and 73 cents respectively, compared with \$66.6m and 69 cents.

Elan shares were up 5% at \$47 in early New York trading yesterday.

Daniel Green

## LUXURY GOODS

## LVMH in FFR1.6bn acquisition

LVMH, the French luxury goods group, yesterday announced the FFR1.6bn (\$262m) acquisition of Sephora, France's leading perfume and beauty products retailer. LVMH is buying the company - which generated 1996 sales of FFR1.37bn from its 54 retail stores employing nearly 1,500 people - from the founders who established it in 1973. It said the deal was being financed by debt.

David Owen, Paris

## Koor marks shift for Claridge

By Avi Machlis in Jerusalem

Claridge-Israel, an investment arm of the Charles Bronfman family of Canada, yesterday paid its first instalment of \$37m to Shamrock Holdings of the US for a 10 per cent stake in Koor Industries, Israel's biggest industrial conglomerate.

Claridge will complete the \$187m payment for the stake in 90 days and decide whether to exercise an option to buy Shamrock's remaining 10 per cent of Koor and de facto control of the concern.

The drive to control Koor marks a strategic shift for Claridge from a leading private investor in Israeli companies to an active player in

a holding company that controls about 7 per cent of Israel's industrial output.

"Up until now we would have taken a minority stake in a company and behaved like sophisticated financial investors," said Mr Danny Biran, Claridge senior vice-president. "This time we are [considering] taking a majority stake and we will be much more active in the company. It's a different responsibility."

The billionaire family founded Claridge-Israel in 1990 to invest in Israeli companies. It is headed by Mr Jonathan Kolber.

Claridge has made several profitable investments in small Israeli companies which later became bench-

marks, including Teva, the pharmaceuticals company, ECI Telecom and Osem, the foods company.

In 1991 Claridge bought 33 per cent of Osem for \$27m. It took the company public in 1992 and last year sold its stake to Nestlé, the Swiss foods group, for a profit of \$110m.

Mr Biran said Claridge has generated profits of between \$500m and \$600m in such deals.

After announcing the deal with Shamrock, Claridge pulled out of a consortium bidding for Bank Hapoalim, Israel's biggest bank, which the government is in the process of privatising - the bank owns a 23 per cent stake in Koor.

But Claridge's involvement in the government's privatisation programme may not be over. Mr Keith Phillips, Israeli analyst at Société Générale, speculates Claridge may use Koor to acquire government companies slated for privatisation.

Claridge has not yet announced its strategy for Koor, but analysts believe it is not entering Koor to make a quick profit.

"They are experts in finding undervalued companies and not being too aggressive in active management," said one analyst. "Buying a holding company doesn't seem to fit in with that strategy, but Claridge probably has some very impressive plans for Koor."

## NOTICE OF EARLY REPAYMENT

ECU 3,000,000,000  
Euro Medium Term Note  
and  
Euro Depositary Receipt Programme  
of  
**Lavoro Bank Overseas N.V.**  
and  
**Banca Nazionale del Lavoro S.p.A.**  
(the "Bank")  
Series N° 5  
**Banca Nazionale del Lavoro S.p.A.**  
- London Branch -  
US\$ 200,000,000 Floating Rate Depositary  
Receipts due 1999  
(the "Receipts")

In accordance with Condition 4(e) Redemption at the option of the Company of the Terms and Conditions of the Receipts and Article 15 of the Pricing Supplement constituting the Receipts, notice is hereby given that the Bank will exercise its option to redeem the Receipts on the next Interest Payment Date, August 28, 1997.

Payments of Principal and Interest in respect of the Receipts will be made against presentation and surrender of the relevant Receipts or Coupons as the case may be at the specified office of the Issuing and Paying Agent issued below.

Interest will cease to accrue on the Receipts as from August 28, 1997.

Receipts and Coupons will become void unless presented for payment within ten years in the case of Receipts and five years in the case of Coupons from the Relevant Date as defined in Condition 6 of the Terms and Conditions of the Receipts.

Issuing and Paying Agent  
Kreditbank S.A. Luxembourggoise  
43, boulevard Royal  
L-2955 Luxembourg

Luxembourg, July 24, 1997

## NOTICE TO BONDHOLDERS OF

**Formosa Chemical & Fibre Corporation**  
("FCFC")  
(Incorporated in Taiwan, Republic of China)

US\$250,000,000  
1 3/4 per cent. Convertible Bonds due 2001

NOTICE IS HEREBY GIVEN that the Company has determined to fix August 5th as the Record Date and the Consolidation Date for this year. Pursuant to the laws of R.O.C. and the terms and conditions in the Offering Circular and Indenture, the Company will close its stock transfer book and will suspend the Bondholders' Conversion Rights from August 1st to August 5th. Thus, Bondholders have to submit their Conversion Notices to the Company's Principal Conversion Agent, Citibank N.Y., by July 31st in order to be included in the year's consolidation. After the Consolidation Date, the Company will proceed with the necessary filing and registration for capital increase in order to issue new Shares in exchange for the Settlement Certificates issued and outstanding on or before such Consolidation Date. The Company will deliver 3.5% stock dividend per share to its Shareholders in accordance with the Offering Circular and Indenture, the applicable Conversion Price will be adjusted from NT\$32 to NT\$34 per share effective August 5th. The excess number of Settlement Certificates derived upon the adjustment of the Conversion Price will be declared in 20 days after the Consolidation Date and then will be exchanged into Shares together with the Settlement Certificates issued and outstanding on or before the Consolidation Date approximately in September. Bondholders should also consult terms and conditions in the Offering Circular and Indenture for more details of the conversion.

FORMOSA CHEMICAL & FIBRE CORPORATION  
BY Citibank N.Y.  
as Principal Conversion Agent

July 21, 1997

## THE ESTABLISHMENT TRUST, SICAV

Registered Office: Luxembourg  
13, rue Goethe  
R.C. Luxembourg: B21.743

## DIVIDEND NOTICE

At the meeting of shareholders held on 17 July 1997 it was resolved to pay a dividend of US\$0.10 per share to shareholders on record on 17 July 1997 and to holders of bearer shares upon presentation of coupon No. 12 payable on or after 24 July 1997 with shares being quoted ex-dividend as from 18 July 1997.

Paying Agent:  
Bank of Bermuda (Luxembourg) S.A.  
13, rue Goethe  
L-1637 Luxembourg

For the Establishment Trust, SICAV  
Bank of Bermuda (Luxembourg) S.A.

## Notice to Bondholders

**The Hokkaido Takushoku Bank, Limited**  
(Incorporated with limited liability in Japan)

US\$ 100,000,000  
1 1/2% Convertible Bonds due 2002  
(the "Bonds")

(ISIN:GB004491704)

Each of the Issuer and The Hokkaido Takushoku Bank, Limited, London Branch (in its capacity as principal paying agent in relation to the Bonds) hereby advises all holders of the above Bonds that, with effect from August 15, 1997, The Hokkaido Takushoku Bank, Limited, London Branch will be replaced in its capacity as principal paying agent, paying agent, conversion agent and replacement agent in respect of the Bonds by The Chase Manhattan Bank, acting through the following office:

The Chase Manhattan Bank  
Trust Department  
60 Thomas More Street  
London EC1A 3ET

By: The Chase Manhattan Bank  
July 24, 1997



FINANCIAL TIMES



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Eureko joins  
GAN suitors

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THE STET/TELECOM ITALIA MERGER, INTERPRETED BY MARIO SCHIFANO.



## July 1997. Now Italy's global telecommunications business has one name: Telecom Italia.

On July 18<sup>th</sup> 1997, the merger of STET and Telecom Italia was completed. From now on, Italy's global telecommunications business is represented by a single company, Telecom Italia, which combines the resources and operations of the holding company with those of its main operating company.

The Telecom Italia Group hits the ground running: it's the world's sixth telecoms company by revenues and, through its subsidiary TIM, is also Europe's

leading mobile telephony business.

Telecom Italia is looking to the future. With an eye to the ever increasing challenges of the global marketplace and the ever more advanced services which consumers demand, Telecom Italia is dedicated to becoming yet more competitive, without ever losing touch with the needs of its customers.

Its aim: simply to communicate better, both at home in Italy and around the world.



Telecommunications in Italy and worldwide.



## COMPANIES AND FINANCE: UK

# Carlsberg-Tetley ready to cut breweries

By Ross Tieman

Carlsberg-Tetley, the UK's third-largest brewer, is set to announce a drastic cost-cutting drive next month after its merger with Bass Breweries was blocked by Mrs Margaret Beckett, the trade secretary.

Analysts expect the company to end brewing at Alloa in Scotland and possibly Wrexham in Wales in a move to cut production costs. Some of the 20 distribution depots and other sites may also close, they say.

The plan is being drawn up after Carlsberg, the Danish brewer which is set to end up owning 85.1 per cent of Carlsberg-Tetley (CT), said it would take urgent steps to enhance the company's viability.

In evidence to a Monopolies and Mergers Commission inquiry, Carlsberg had warned that "there was a real risk that CT would enter a downward spiral" if the merger was blocked.

It warned that it would not be prepared to put further resources into the business, and operations would be scaled-down to concentrate on the Carlsberg lager and Tetley bitter brands.

Had the merger with Bass been consummated, CT would have emerged as part of Britain's biggest brewer. Now it must choose a new strategy as a distant third, with 14 per cent of the market, against the 28 per cent of Scottish Courage and 23 per cent held by Bass.

Unlike its rivals, CT has no pubs of its own. It depends heavily for its profitability on an agreement to supply 1.85m barrels of beer a year at above-market prices to pubs owned by Allied Domecq.

That agreement expires in December. Under a new 10-

year agreement, triggered by the collapse of the merger, Allied expects to save £22m (£70m) a year, and take substantially lower beer volumes. Last year, on sales of £1.04bn, CT made pre-tax profits of £57m.

Details of the restructuring will be presented to the 3,900-strong workforce by the chief executive, Mr Ebbe Dinesen, within weeks. In a letter to workers he warned that while the end of the Allied Domecq contract would "seriously affect our profitability" sales of the key Tetley and Carlsberg brands were up strongly this year.

In evidence to the MMC, CT said its Alloa and Wrexham breweries were "not of optimal size" and the Alloa site was "significantly dependent" on the Allied Domecq pub estate in Scotland. "If the merger did not proceed CT would have to make significant reductions in capacity," it predicted.

Analysts say CT's Burton-on-Trent brewery is highly efficient, while its other two breweries, at Leeds and Northampton, are essential to its brand strategy.

Some brokers believe CT may sell some of its lesser brands to rivals or regional

brewers as part of the restructuring.

The first £50m of proceeds from any divestment will be paid to Bass to cover its losses. The MMC inquiry was launched after Bass agreed last August to buy out Carlsberg's 50 per cent partner in CT, Allied Domecq, for £200m, and merge CT with its own brewing operation.

Bass is now expected to exercise its rights to sell the shares back to Carlsberg for £10m, claim a £30m refund from Allied Domecq, and merge CT with its own brewing operation.

## LEX COMMENT

## Nationwide

The resounding vote by Nationwide members against a collection of colourful would-be directors was a heartening vote against greed. The present value of the more generous mortgage/savings rates Nationwide promised as a continuing mutual society must be lower than the £2,000 members could have received from its conversion into a listed bank. And the maverick directors were unequivocally pursuing conversion. So it seems that the mutual society has joined warm beer and cricket as a symbol of a traditional Britain, which people will fight to preserve.

But Nationwide and the small band of fellow building societies should not rest easy. The carpetbaggers have been repulsed, but only for the moment. After all, Nationwide is still comparatively inefficient and its ability to pay out beneficial rates is largely a reflection of its large amount of "free" capital. New arrivals, from supermarkets to insurers, are pushing into an already crowded mortgage market offering more competitive rates. So it is doubtful that the mutuals are necessary to keep a banking cartel at bay. Besides, if mutuals are so marvellous, why did Nationwide want two years ago to merge with National & Provincial and become a bank?

So the war looks set to continue. A more credible raft of pro-conversion directors could easily be assembled. Furthermore, the government looks unlikely to hamstring carpetbaggers and the allure of potential takeover premiums will ensure they do not go away.

## GrandMet faces elephant

Ross Tieman on the boardroom battle over the proposed merger

In the parlance of Grand Metropolitan's boardroom, an "elephant" is a problem too big to be mentioned. The director who spots its presence is obliged to bring it to the attention of his colleagues, who must then confront the issue.

For the past several months, the elephant in the boardroom of the UK drinks group, and its would-be merger partner Guinness, has been Mr Bernard Arnault.

Directors hoped the chairman of French luxury goods group LVMH, then a Guinness non-executive, would ruminate quietly in the corner until their £24bn (\$40bn) merger to create the world's leading wines and spirits company, GMG Brands, was completed at the year-end.

But with a string of highly publicised moves, the Breton entrepreneur has gradually elbowed the merger partners into talks aimed at including Moët Hennessy, LVMH's brandy and champagne subsidiary, in their tie-up.

Mr John McGrath, the chief executive of GrandMet and chief executive designate of GMG, said once the merger was consummated, there were plans for a follow-through deal with Moët Hennessy, which distributes in 10 countries through joint ventures with Guinness.

But Mr Arnault pushed Guinness and GrandMet on to the back foot by identifying mouth-watering savings from an immediate three-way combination of Moët Hennessy with GrandMet's International Distillers and Vintners and Guinness's United Distillers.

In an 18-page proposal last week, he detailed savings of up to £50m a year from combining their international drinks marketing and distribution.

But the opportunity was tied up with claims that GMG could release further value for shareholders by simultaneously demerging its food, fast-food and brewing businesses. Specifically, Mr Arnault argued, the



John McGrath: fiercely resists Mr Bernard Arnault's proposals

group would suffer from a "conglomerate discount" worth some £1.6bn if the parts remained together.

Mr McGrath yesterday daily rebutted the suggestion. Exhaustive analysis showed, he said, that the parts of the business were not worth more than the whole. If they were, GrandMet would have demerged them already.

Since he took charge at GrandMet at the start of last year, he says, the company has reviewed each of its businesses, and set itself a target of doubling shareholder returns from each of them. "We are pretty open-minded about getting into and out of businesses," he said. "In the last three years we have sold £1.5bn of businesses." The future of Burger King, the fast-food chain, has been reviewed every six months by advisers, including SBC Warburg. But Mr McGrath said that until the opportunities that will arise from Burger King's international expansion are properly valued in the GrandMet share price, he could not recommend demerger to the board.

Guinness says it has regularly reviewed the arguments for demerging its brewing business, and "the game's not worth the can-

dle".

But while Mr Arnault's ideas for demerger are fiercely resisted, the benefits possible from deeper collaboration between the three drinks businesses are not disputed by GMG.

Mr McGrath said recent talks between GMG and Mr Arnault had been designed in part to see "if we could find an arrangement by which we could achieve these additional benefits".

The battle of wills is about how the spoils will be divided. Mr Arnault has proposed swapping his stakes in Guinness and GrandMet, for 35 per cent of a merged drinks business worth about £18.6bn quoted in London and Paris.

"This has been opposed by Guinness directors on several grounds," Mr McGrath said. First, "assuming you could bring together the three spirits companies on a no-premium basis, it is too complex a management task to do simultaneously with a demerger".

But the savings could possibly be achieved by a merger within the GMG structure, he believes.

Even so, he said, it would be unfair to allow Mr Arnault to exchange shares

in Guinness and GrandMet for shares in the drinks business where the benefits of the merger will be concentrated.

Since Mr Arnault is now set to hold about 12 per cent of shares in GMG, he should have a proportional share of the merger benefits, Mr McGrath suggested.

Equally critical, "we need to have a shareholding structure which is not disadvantageous to Guinness and GrandMet shareholders or to the management of the company".

To date, most shareholders have remained supportive of the GMG merger proposal. But after a series of stock market raids, Mr Arnault now commands a stake of 11.05 per cent of GrandMet and 12.45 per cent of Guinness. That gives him the right to call an extraordinary meeting of either company to put his proposals directly to shareholders.

Mindful of this leverage, directors of Guinness and GrandMet are now searching for a formula that will allow their investors to reap some of the benefits available from a consolidation of Moët Hennessy within their combined international Distillers company, without conceding too much to Mr Arnault.

## 'No decision' on Formula One float date

By Clary Harris

The date of the proposed flotation of Formula One Holdings became more uncertain yesterday when its owner said: "No decision has ever been made with respect to timing."

The statement signals an effort to quell speculation over the planned issue and to dispel concerns about relations between Mr Bernie Ecclestone, FOH's creator and chief executive, and his financial adviser, the US investment bank Salomon Brothers. It was issued on behalf of the Ecclestone family trust which owns FOH.

It means that while the issue is still not expected to be launched before late November, the date most recently mooted by Salomon, even that estimate no longer has any force. From now on, target dates will simply not be discussed until a firm announcement can be made "in due course".

An adviser to the company, which markets broadcasting rights for Grand Prix motor racing, said yesterday: "The date has to be driven by the deal, not the other way around."

The statement said a public offer remained the "preferred course" but did not exclude other options.

The flotation plan has been bedevilled by a series of perceived delays. When the proposal was leaked in March, the target date was said to be by the time of the British Grand Prix in early July. In June, with holidays looming and several questions unresolved, September

was advanced as the likely date. That was later massaged back to November.

The regularly receding target, plus a series of embarrassing disclosures about extracurricular financial advice being given by investment banks due to take part in the share issue combined to give the impression of a project in disarray.

Salomon's investment banking rivals and other parties with possible designs on FOH did nothing to discourage that view.

Salomon was also surprised to discover twice within a week that Mr Ecclestone, FOH's chief executive, had been engaged in secret talks on potential rival or fall-back plans.

Yesterday's statement was issued by the lawyer advising a family trust of Mr Ecclestone's wife, Elaine. It said the company's owner had considered a number of "strategic alternatives" in consultation with Salomon.

It continued: "An initial public offering is my client's preferred course of action and progress is being made in preparing the company for flotation."

"My client has asked me to make clear that Salomon Brothers are the shareholders' exclusive financial adviser and any proposals put forward will be evaluated by Salomon Brothers." Although the statement was issued on the initiative of the Ecclestone family interests, it is believed to reflect a shared desire with Salomon to demonstrate fidelity and regain control over the float's publicity.

## RESULTS

							Dividends		Total for year	Total last year		
		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend					
Avon Products	6 mths to June 27	23.6	(20.7)	4.08	(2.75)	11.91	(2.2)	3	Oct 1	2.5	-	8
Bulldog	6 mths to Apr 30	133.6	(108.1)	11.17	(4.23)	8.88	(2.05)	1.29	Sept 11	1.17	-	5.47
Dunelm	6 mths to Mar 31	4.04	(4.37)	0.113	(0.284)	0.181	(7.7)	-	-	-	-	-
Home (USA)	6 mths to Mar 31	58.9	(55.5)	3.52	(2.86)	17.2	(12.0)	3.75	Sept 15	3	5.75	4.5
Homeplus	6 mths to June 30	-	(-)	1.08	(1.18)	1.5	(1.8)	1.7	Sept 17	1.7	-	12.7
Matthew Clark	Yr to Apr 30	570.7	(450.8)	40.6	(72.24)	31.8	(18.4)	15	Oct 7	15	24	24
Pace Micro	Yr to May 31	219.5	(195.5)	18.4	(18.2)	5.7	(8.1)	1.8	Nov 28	-	2.7	-
Reunert	6 mths to June 30	1,409	(1,258)	333	(342)	14.2	(14.8)	3.1	Sept 8	2.75	-	11.75
Southern Vectra	Yr to Apr 30	23.9	(25.1)	1.77	(1.5)	6.1	(4.5)	2.1	Sept 23	1.9	-	1.9
Sparco Consulting	6 mths to June 30	4.23	(4.04)	0.825	(0.802)	3.25	(3.1)	2.25	Sept 15	2	-	4.5
Sunderland	Yr to May 31	13.4	(7.17)	3.08	(2.37)	44.5	(44.5)	3.2	Nov 4	-	3.2	-
Investment Trusts												
		NAV (£m)	Attributable earnings (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividend yield (%)	Corresponding dividend	Total for year	Total last year		
Abstract Scotland	Yr to May 31	60.2	(53.74)	0.832	(0.686)	1.24	(0.89)	0.95	Sept 22	0.825	0.95	0.825
Dunelm	Yr to May 31	80.86	(65.94)	0.579	(0.701)	7.8	(6.8)	4.875	Aug 29	4.875	8.25	8.25
Flamingo American	6 mths to June 30	323.5	(438.3)	1.13	(1.45)	1.23	(2.1)	n/a	-	n/a	-	2.8
Investec Tokyo	Yr to May 31	48.9	(80)	0.016	(0.052)	0.02	(0.05)	-	-	-	-	-
Schneider Engineering	Yr to May 31	101.23	(-)	0.029	(-)	0.1	(-)	-	-	-	-	-
Yasuni	6 mths to June 30	373.1	(208)	1.89	(2.05)	7.86	(8.32)	8	Sept 12	5.5	-	15.1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*After exceptional charge. \*After exceptional credit. †On increased capital. ‡After stock. §Comparative pro forma. \*Comparative retained. ‡Comparative for 15% months.

## Nationwide board wins vote for mutuality

By Christopher Brown-Hummes and James Blitz

Nationwide, the UK's biggest building society, yesterday won decisive backing for its plans to remain mutual after defeating rebel board candidates by a large margin.

Five existing board members gained about 70 per cent of the vote after a postal ballot in which 1.3m of Nationwide's 3.5m members took part. They defeated five dissidents whose pro-conversion campaign aimed to deliver windfalls worth up to £2,000 (£3,340) to every member.

The victory margin stunned observers who believed the rebels would fare much better against a backdrop of massive speculation about conversion bonanzas.

Other societies expressed relief, saying the vote was a clear endorsement of mutuality and a rejection of short-term greed. Many executives had feared the 220-year old movement could have disappeared if Nationwide had lost.

Mr Brian Davis, Nationwide chief executive, said the result was a "clear turning point" for mutuals and a victory for competition on the high street.

About 950,000 Nationwide members turned their backs on a windfall, while the rebels each gained about 350,000 votes.

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11 June 1997

## Pace shares dip 15%

By Virginia Marsh

Shares in Pace Micro Technology, the fallen star of last year's new issues market, lost a further 15 per cent yesterday after the company reported annual results showing a weak second half and warned that the outlook for this year remained uncertain.

Mr Peter Morgan, executive chairman, said the company - which produces receivers and decoders for satellite and cable television - was facing continuing uncertainty in its main markets because of ongoing changes in the broadcast sector.

The shares lost 9 1/2p to 53 1/2p, less than a third of their price in last June's heavily oversubscribed flotation which valued the company at £386m (£545m).

The shares, floated at 172p, fell sharply after two profit warnings in quick succession this year. They have also been hit by the departure of one of the joint chief executives and the resignation of the finance director.

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Life group in  
portfolio shift

Swiss Re issues  
earthquake bonds

# The D-Mark plumbs new depths

MARKETS REPORT  
By Simon Kuper

The D-Mark hit multi-year lows against several currencies yesterday, although it recovered modestly after the London close as traders took profits.

The German currency went into free-fall on Tuesday night after Mr Alan Greenspan, chairman of the Federal Reserve, said the US economy was growing faster and inflation was lower than the Fed had previously expected. That prompted enthusiastic buying of US stocks and bonds, boosting the dollar.

The US currency had already had a strong week thanks to growing belief that European monetary union will start on schedule. The market believes that ERM will produce a soft euro, because many of the qualifying countries could have weak fiscal positions. France

admitted on Monday that its budget deficit for this year would probably exceed the entry criterion for ERM, and various Bundesbankers quickly indicated that they would find this acceptable.

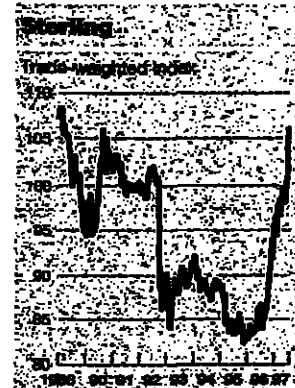
The D-Mark yesterday hit its lowest level against the dollar since August 1991 at DM1.5255, its lowest against the pound since September 1989 at DM3.0678, its worst against the Swedish krona since October 1992, and its lowest against the Swiss franc since last August.

Mr Avinash Persaud, head of forex research at J.P. Morgan in Europe, said the dollar and pound buying was mainly due to purchases of US and UK stocks and bonds, and to hedging by companies against possible

further rises in these currencies, rather than to a conviction that they would go on climbing.

The D-Mark rose on late profit-taking prompted partly by Ms Alice Rivlin, vice chair of the Federal Reserve, who said the dollar might not rise much more. Late yesterday the D-Mark was at DM1.5255 to the dollar and DM3.0660 to the pound. That was respectively 1.6 pence and 2.7 pence below Tuesday's London close. But most of the D-Mark's slide had come late on Tuesday directly after Mr Greenspan's Humphrey-Hawkins testimony in the House of Representatives.

The Swiss franc, Norwegian krona and Swedish krona were the other main beneficiaries of the D-Mark's decline. Mr Persaud said this was because these currencies were seen as safe havens from the feared weak euro. Also, forex strategists



said the Swiss and Scandinavian economies were gaining strength. Late yesterday the Norwegian krona was at Nkr4.1010 to the D-Mark, up from Nkr4.125 on Tuesday. The Swedish krona was at Skr4.2745 against the D-Mark from Skr4.301 on Tuesday, and the Swiss franc was 0.35 centimes stronger at Sfr0.8135 to the German currency.

Mr Michael Lewis, senior economist at Deutsche Morgan Grenfell in London, warned that Switzerland, the UK and Italy had little desire to see their currencies soar against the D-Mark. But the market was testing the central banks' tolerance limits.

The Thai baht plunged again yesterday, taking on more than 10% against the D-Mark. The region's central banks hope to calm the market when they meet in Shanghai tomorrow.

The baht closed yesterday at Bht32.35 against the dollar, down from Bht30.95 on Tuesday and well below the currency's Bht26 peg before the

devaluation of July 2.

Most selling was by locals. Thai-based corporations, estimated to have a total of US\$60bn in unhedged foreign debt, bought dollars to protect themselves against further declines in the baht. The Malaysian ringgit, Singapore dollar and Indonesian rupiah also fell.

Many of the region's central banks are no longer thought to have enough forex reserves to support their currencies. Bank Negara admitted on Tuesday that it had spent 12.5 per cent of its reserves defending the ringgit in the first half of July.

Treasury economists warned that the Shanghai meeting would probably fall short of a commitment to joint central bank intervention. They said the market should expect only a strongly-worded communiqué on the need to restore stability.

## POUND SPOT FORWARD AGAINST THE POUND

Jul 23	Closing mid-point	Change	Settlement	Days' bid	Days' ask	Rate	One month	Three months	One year	JP Morgan
Europe	(Sch)	21.6147	+0.229	204	280	21.7197	21.4343	21.5808	3.0	21.4476
Australia	(A\$)	83.4486	+0.704	860	872	83.7390	82.9290	83.2688	3.4	82.8868
Canada	(C\$)	11.2078	+0.125	918	928	11.2301	11.0231	11.0558	3.4	11.0218
Denmark	(DKK)	6.0082	+0.0078	598	608	6.0360	5.9950	6.0108	3.4	6.0038
France	(FF)	10.3528	+0.118	540	550	10.4008	10.2904	10.3255	3.4	10.2855
Germany	(DM)	3.0678	+0.0028	708	718	3.0887	3.0295	3.0587	3.7	3.0438
Greece	(Dr)	478.545	+0.08	734	744	482.719	477.417	481.351	-4.5	480.355
India	(Rs)	1.1987	+0.0081	372	382	1.2145	1.1933	1.1982	0.6	1.1939
Italy	(L)	2.3857	+0.31	301	311	2.3850	2.3688	2.3855	0.0	2.3852
Luxembourg	(Lfr)	83.4486	+0.704	860	872	83.7390	82.9290	83.2688	3.4	82.8868
Netherlands	(Gld)	3.6386	+0.0388	811	821	3.6778	3.6378	3.6484	3.5	3.6388
Norway	(Nkr)	12.8001	+0.085	955	965	12.7134	12.5477	12.5708	3.1	12.5896
Portugal	(Esc)	20.1172	+0.336	921	931	20.1173	20.1108	20.1108	0.6	20.1173
Spain	(Ptas)	166.687	+0.28	376	386	166.687	166.687	166.687	1.5	166.687
Sweden	(Skr)	14.1885	+0.038	187	197	14.1885	14.1885	14.1885	2.8	14.1885
Switzerland	(Sfr)	2.4889	+0.018	975	985	2.5006	2.4884	2.488	5.3	2.4884
UK	(£)	-	-	-	-	-	-	-	-	-
EU	-	-	-	-	-	-	-	-	-	-
SFR	-	-	-	-	-	-	-	-	-	-

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 23	Closing mid-point	Change	Settlement	Days' bid	Days' ask	Rate	One month	Three months	One year	JP Morgan
Europe	(Sch)	12.8571	+0.1026	532	542	12.8800	12.7820	12.8331	2.2	12.7841
Australia	(A\$)	37.7400	+0.32	200	210	37.8410	37.4270	37.665	2.4	37.5135
Canada	(C\$)	6.5078	+0.0281	585	595	6.5285	6.4826	6.5042	2.1	6.4915
Denmark	(DKK)	5.7570	+0.028	725	735	5.7805	5.7457	5.7605	2.8	5.7461
France	(FF)	6.1816	+0.0282	603	613	6.2100	6.1700	6.1901	2.2	6.1822
Germany	(DM)	1.8273	+0.0148	288	298	1.8425	1.8175	1.8295	2.5	1.8197
Greece	(Dr)	285.250	+1.87	180	190	288.120	284.700	286.545	-4.4	286.75
India	(Rs)	1.4785	+0.0095	750	760	1.4855	1.4732	1.4767	0.6	1.4748
Italy	(L)	1.7783	+0.153	340	350	1.7820	1.7685	1.7778	-1.2	1.7801
Luxembourg	(Lfr)	37.7400	+0.32	200	210	37.8410	37.4270	37.665	2.4	37.5135
Netherlands	(Gld)	3.6386	+0.0388	811	821	3.6778	3.6378	3.6484	3.5	3.6388
Norway	(Nkr)	12.8001	+0.085	955	965	12.7134	12.5477	12.5708	3.1	12.5896
Portugal	(Esc)	184.500	+1.5	400	410	185.300	184.400	184.400	0.2	184.41
Spain	(Ptas)	153.675	+0.175	350	360	154.200	153.700	153.700	0.6	153.70
Sweden	(Skr)	14.1885	+0.038	187	197	14.1885	14.1885	14.1885	2.8	14.1885
Switzerland	(Sfr)	2.4889	+0.018	975	985	2.5006	2.4884	2.488	5.3	2.4884
UK	(£)	-	-	-	-	-	-	-	-	-
EU	-	-	-	-	-	-	-	-	-	-
SFR	-	-	-	-	-	-	-	-	-	-

## BASE LENDING RATES

Canada	(C\$)	2,232.15	+0.0091	204	-225	3,239.24	2,511.24	23.33
China (New Pk)		13,182.8	+0.0090	750	-805	13,214.1	13,143.2	14.42
USA	(R)	1,681.2	+0.0045	807	-816	1,689.1	1,577.6	1.61
<b>Asia/Pacific/Asia</b>								
India	(Rs)	2,928.8	+0.0046	814	-842	2,936.8	2,620.0	1.20
Japan	(¥)	13,023.9	+0.0034	678	-692	13,026.2	12,998.3	10.33
Hong Kong	(HK\$)	60,008.7	+0.1598	974	-499	60,462.0	59,986.0	0.82
Taiwan	(NT\$)	5,908.1	+0.0090	828	-170	5,941.6	5,690.0	0.80
Thailand	(฿)	194,719.0	+0.0857	800	-850	195,219.0	193,380.0	189.00
South Korea	(₩)	1,040.0	+0.0090	800	-800	1,040.0	1,040.0	0.00
New Zealand	(NZ\$)	2,529.2	+0.0011	805	-860	2,581.5	2,575.0	0.47
Philippines	(P=)	47,238.9	+0.1099	838	-838	46,815.9	47,548.0	47.80
Singapore	(S\$)	2,405.4	+0.0177	038	-072	2,423.9	2,420.0	0.23
Guatemala	(Q)	6,365.7	+0.0014	842	-872	6,278.8	6,244.0	2.44
South Africa	(R)	47,511.1	+0.0090	866	-757	47,962.6	47,689.0	7.77
Malaysia	(RM)	1,040.0	+0.0090	800	-800	1,040.0	1,040.0	0.00
Maldives	(M\$)	45,099.9	+0.1495	420	-512	45,199.9	45,777.0	44.00
Thailand	(฿)	54,383.3	+0.2461	195	-320	54,667.0	54,120.0	54.00

Prices for Jan 21. Bid/offer spreads in the Pound Spot table show only the last two decimal digits. Bid/offer spreads are shown by current Internet rates. Sterling bid calculated by the Bank of England. The Bank of England's bid/offer spread is 0.0001. The bid/offer spread

## BASE LENDING RATES

	3.5	2.501	3.5	2.501	3.1	84.9	Canada	(C3)
							Mexico (New Peso)	(C4)
94	1.3	1.8757	1.3	1.8754	1.4	104.5	USA	(A)
							Pacific/Ridge East	(E3)
	0.3	2.2603	0.3	2.2602	0.5	91.8		
99	0.1	13.0184	0.2	12.9914	0.5		Hong Kong	(F10)
99	0.3	60.6044	-4.0	62.2842	-3.8		India	(F16)
							Israel	(F14)
89	6.3	19.4784	5.3	19.469	6.2	193.6	Japan	(E1)
90	0.1	1.4848	-1.1	4.4248	-0.2		Indonesia	(F10)
98	0.1	1.2590	-0.1	2.5962	-0.1	108.1	New Zealand	(F20)
98	-4.0	48.2391	-3.4	48.2361	-3.1		Philippines	(F20)
99	0.7	9.2394	0.8	9.2527	0.8		Saudi Arabia	(S1)
99	0.3	2.451	2.4	8.208	2.8		Singapore	(S1)
98	0.7	7.9497	-8.3	8.2966	-9.0		South Africa	(F1)
							South Korea	(F1)
98	0.4	48.9402	0.5	48.7428	0.5		Taiwan	(F1)
99	-7.6	55.1835	-5.9	56.2137	-5.4		Thailand	(F1)

Percentages. Forward rates are not directly quoted to the market but are calculated using the 180-day forward rate. 1989, 1990 and 1991 are the average 1980 to 1991. Rates relative to 1985, 1986, 1987 and 1988 are the average 1980 to 1991. Rates relative are rounded by the D.C.

Source: Bank of America

1 SDA rate per \$ for Jan. 1990. The exchange rate is the price quoted to the market.

2 The exchange rate is the price quoted to the market.

## BASE LENDING RATES

1.3809	+0.0115	806	811	1.3813	1.3755	1.3778	27	1.3767
7.8415	-0.0075	300	440	7.8452	7.8380	7.95	-16.6	6.81
1.3579	+0.0038	574	583	1.3592	1.3569	1.3577	0.2	1.3579
7.7470	-0.0008	465	477	7.7487	7.7460	7.7475	-0.1	7.7478
36.9590	-	800	100	36.9505	36.9500	35.8235	-6.1	36.9141
3.1543	-0.0029	924	932	3.1580	3.1504	-	-	-
115.9825	+0.01	780	880	115.9800	115.9130	115.913	5.3	114.3131
1.3809	+0.0115	806	811	1.3813	1.3755	1.3778	27	1.3767
1.3855	-0.0040	399	401	1.5410	1.5385	1.5403	-0.5	1.5427
28.4500	-0.01	000	000	28.1000	28.2000	-	-	-
9.7307	-	508	507	3.7698	3.7505	3.7514	-0.2	3.7508
1.4667	+0.0095	682	672	1.4658	1.4579	1.4648	1.4	1.4581
4.6580	-0.011	615	645	4.5728	4.5910	4.5903	-10.7	4.5895
27.9550	+0.015	300	300	27.8800	27.9250	27.866	-0.5	27.9700
32.3500	+1.0	000	000	32.6000	30.1500	32.785	-16.5	33.9500

2. Wholly owned in the Dollar \$000,000 scale only the last three decimal places are implied by current interest rates. UK, Ireland & ECU are quoted in US currency.

Values in this table are also available on the internet at [www.FY.com](http://www.FY.com)



## COMPANIES AND FINANCE

## RBS in talks to acquire Midshires

By Christopher Brown-Humes

Royal Bank of Scotland is in detailed talks to acquire Birmingham Midshires, the UK's fifth largest building society. A price tag of about £500m is being discussed.

A deal would provide Midshires' 1.2m members with an average windfall of more than £500 - much lower than recent pay-outs from converting societies such as Halifax and Woolwich.

If Midshires abandoned mutualism, it would be a blow to the sector just as it was celebrating brighter prospects after Nationwide members decisively voted against conversion to a bank. But it would give RBS some of the enhanced retail presence south of the border it has long coveted. Finalisation of the deal is believed to be some weeks away.

Intense speculation has surrounded Midshires for 18 months, leading to an influx

of some 300,000 "carpetbaggers" in the last year. Earlier this week, the society suspended new account openings. On Monday, it will launch a new set of accounts, with identical interest rates, but they will not carry the membership rights necessary for a windfall.

Midshires has 115 branches in the Midlands, the south-west and north-west. It has assets of about £7.7bn and last year

made profits of £70.7m, up 13 per cent on 1995.

Mr Mike Jackson, Midshires chief executive, said earlier this week it was "not for sale and no decision had been taken on a change in corporate form". But the society has also said its adviser, JP Morgan, was exploring options, including possible flotation or sale.

Many analysts believe it is too small to float and would prefer to be acquired by a listed company.

Midshires would hope that a deal with RBS would give it greater independence, permitting brand retention and avoiding the heavy branch closures that an agreement with an English competitor might entail. Such an arrangement would be similar to Bank of Ireland's £600m purchase of Bristol & West.

RBS has made no secret of its ambitions to gain more customers through a variety of distribution channels,

including Direct Line and its personal finance link with Tesco.

The bulk of its branch network and customer base is north of the border. It might see the purchase as a platform for further acquisitions to achieve a nationwide presence.

Midshires would only confirm that it talked to the bank about the launch of a joint credit card later this year. The bank would not comment.

## Guinness and GrandMet defend plan

By David Blackwell

Guinness and Grand Metropolitan yesterday defended their original May 12 plan to create a £24bn food and drink conglomerate.

Mr Bernard Arnault, the French businessman trying to derail the plan, had made all the running with a series of highly publicised moves, including resignation from the Guinness board on Monday. But analysts yesterday thought the two UK groups were firmly back on the front foot, the day after Mr Arnault arrived in the City to start a charm offensive on institutional investors.

"They seem to have turned the public relations battle in their favour," said one analyst. "They have shot down a lot of the claims made by LVMH about added value."

"They have come in hard and said the arithmetic does not work," said another. "The story was clear - they were not going to talk about demerger and were not prepared to pay a premium for Mott Hennessy."

Mr Arnault, chairman of LVMH, the French luxury goods group, is campaigning for a three-way drinks merger that includes LVMH's Mott Hennessy. By reducing his stake in Guinness to 12.5 per cent, he has built up his GrandMet holding to more than 11 per cent, and is the biggest single shareholder in both groups.

Whether he will build his GrandMet stake further is subject to much speculation. If he were to go to 25 per cent he would be able to single-handedly to stop the scheme under arrangement under which Guinness and GrandMet shares will be swapped in order to create GMG brands.

"If we find that there are rocks in the road, we will drive round them," said Mr Philip Yee, finance director designate of GMG. This implied that the two groups would change the scheme of arrangement if necessary.

Any change would subject the new group to stamp duty of about £66m. That would probably be considered immaterial in the context of the overall benefits to be had although other problems are likely to surface over a 25 per cent minority holding.

Institutional investors do not want to see the situation get too confrontational. The more conservative are particularly keen not to lose the gains in both shares since the merger was announced - although LVMH itself would be the biggest loser.

However, Mr Arnault is not without support. One institutional investor yesterday said GMG would end up with "a rag-bag collection of consumer interests" that would dilute the value of the Guinness brands. "I would be prepared to tolerate that only if Mott Hennessy was brought into the picture," said the investor.

## Pendragon pays Lex £44m for 17 franchises

By Christopher Price

The consolidation of UK car dealerships moved up a gear yesterday when Pendragon agreed to buy 17 franchises from Lex Service for £44m (£37.5m).

The deal will make Pendragon the largest car dealer in the UK and marks a significant move by the company into the "volume" or mass-market, car sector.

Pendragon will fund the deal through a £56m 4-for-7 rights issue at 260p. Shares in the group fell 50p yesterday to 313.5p.

The company also announced expansion agreements with Ford and Vauxhall, which between them own 14 of the franchises. This would require £52m of investment over the next three years.

Mr Trevor Finn, chief executive, said the creation of "major market areas" echoed the development of car retailing in the US.

"Competition between the same brands in the same areas destroys profits. The manufacturers are at last realising that," Mr Finn said.

The National Franchised Dealers Association said intense competition had led to the number of franchisees falling by about 10 per cent to 6,000 in the past year.

The 17 franchises made profits of £3.4m, down 35 per cent, on sales of £249m in 1996. Mr Finn said Pendragon's similar set-up with Volvo had led to improved margins through economies of scale.

Mr Andrew Harrison, chief executive of Lex, said the company was leaving volume car sales because of poor returns.

He believed the market, where new car sales rose just 2 per cent last year, would continue to struggle against the luxury, or specialist, market. Lex would now concentrate on its specialist dealerships and leasing, and diversify into other areas such as servicing.

Shares in Lex rose 24p yesterday to 403p.

The rights issue is being underwritten by Merrill Lynch, which was yesterday appointed stockbroker to Pendragon after BZW was replaced.

See Lex

## BI buys Cortworth in £93.6m deal

By Robert Anderson

Cortworth, the UK specialist engineering company bought by its management from Williams in 1993 for £40.3m (£67.3m), is to be sold to BI Group for £93.6m.

Cortworth's management, led by Mr Bill McIlwain, chief executive and Mr Graham Wagstaff, finance director, owns just over 20 per cent of the equity, and will receive about £19m.

BI, a specialised engineering subsidiary of the Kuwaiti-listed National Industries Corporation, is offering 196p a share in cash, a 25.6 per cent premium to Thursday's closing

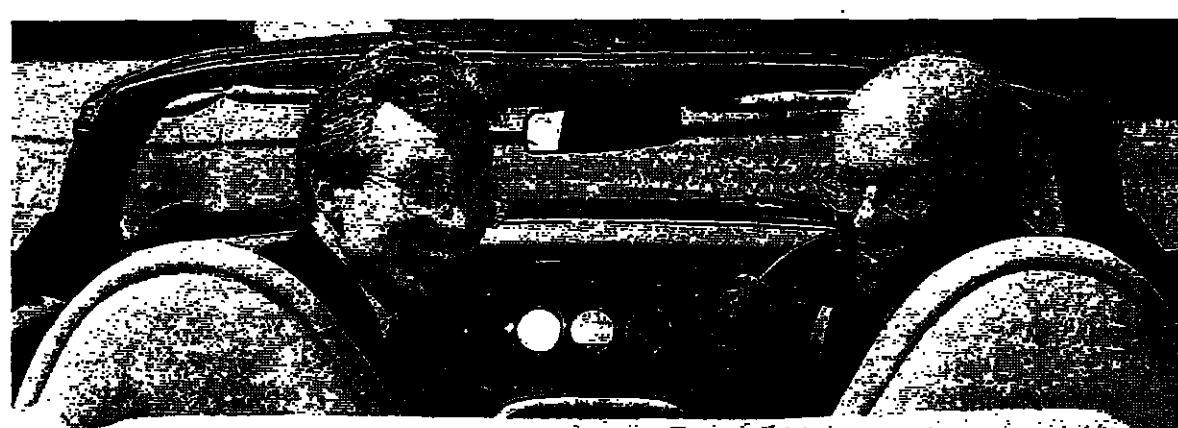
price. There is a loan note alternative.

The sale price is well above Cortworth's £71.6m value when floated in 1995, but about its market peak in April 1996.

Analysts said the price had weakened partly because investors had been disappointed that acquisitions had not been made. The group has underperformed the engineering sector over the past year.

In 1996 Cortworth made pre-tax profits of £10.1m on turnover of £57.2m. Its year-end net assets were £25.5m.

The acquisition is BI's first since it was taken over by NIC for £96.3m last year.



Sitting comfortably: Andrew Harrison (left) with Sir Trevor Chinn, Lex Service chairman

## Volume switch for car dealers

By Christopher Price

Both Pendragon and Lex Service produced firm increases in profits yesterday as the motor dealership groups announced their divergent strategies.

Pendragon, which is adding Lex's volume business to its luxury car dealerships, increased half-year pre-tax profits by 14 per cent to £5.68m.

Sales rose 29 per cent to £369m.

Lex increased pre-tax profits by 10 per cent to £50.5m on turnover slightly down at £777.3m (£812m).

In the reverse to Pendragon, the group is concentrating on distribution of higher-margin specialist brands.

The fall in sales reflected Lex's disposal of some other volume franchises, a strategy embarked upon a year ago with the appointment

of Mr Andrew Harrison as chief executive.

Operating profits from the retail business fell 20 per cent to £3.8m.

In contrast, profits from vehicle leasing rose 17 per cent to £10.5m. There was also a 14 per cent increase, to £6.6m, from the forklift truck division.

The group's Hyundai dealership almost trebled profits to £3.6m.

Earnings per share rose 12 per cent to 19.1p. The interim dividend is increased 6 per cent to 6.8p.

Pendragon's figures were lifted by strong performances from its Jaguar and Volvo franchises.

In addition, sales of Fiat cars, where the group has the greater London franchise, were also firm.

Earnings per share increased 16 per cent to 11.8p.

## COMMENT

Pendragon's reputation for sure-footedness looked a little shaky after yesterday's deal. True, the development of large market areas has worked well for dealers in the US and for its UK rival Reg Vardy. Pendragon has taken the canny step of agreeing large area monopolies with the manufacturers supplying its new franchises.

But this cannot disguise the fact that sales in the volume car market are soggy and industry forecasts hardly encouraging. Pendragon will rightly argue that it should be able to extract higher margins from the Lex purchase through its monopoly position, tighter controls and economies of scale. But until the volume car market itself shows signs of recovery, the benefits of the deal are likely to be overshadowed. Pre-tax profit forecasts of about

£15.5m (£12.6m) put the shares on a prospective yield of some 13 times. This is a 15 per cent discount to the market and looks about right.

The deal holds out brighter prospects for Lex. It is left to concentrate on higher margin businesses, while the development of newer businesses, such as repairs and servicing, looks promising. Proceeds from the deal, together with the sale of part of its stake in a Taiwanese venture, will wipe out debts over the next year. With the remainder of the Taiwanese investment valued at £120m, speculation about a share buy-back or special dividend appears justified. Pre-tax profit forecasts of £58m put the shares on a forward yield of about 10.

While the challenge for Lex is to put together a consistent run of results, the rating looks somewhat harsh.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Hearts	11 to May 31	4.92 (4.34)	1.54 (1.2)	25.5L (24.1L)	-	-	-	-
Lex Service	6 mths to June 30	777.3 (812.1)	30.5 (27.7)	19.1 (17)	6.8	Sept 4	6.4	16
Pendragon	6 mths to June 30	369.1 (286.5)	6.66 (5.85)	11.8 (10.2)	3.6	Aug 29	3.3	9.9

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Barling Yorkshire	6 mths to June 30	925 (457.5)	2.87 (2.2)	5.6 (4.28)	2.2	Sept 15	2	7.8
City of Oxford	3 mths to June 30	-	-	-	1.34	Aug 29	1.3	5.6
Edinburgh UK Truck	6 mths to June 30	195.21 (165.83)	1.53 (1.44)	3.02 (2.97)	2.2	Aug 29	2.2	5.3
General Income	3 mths to June 30	44.25 (41.8)	0.875 (0.8)	0.741 (0.6)	0.875	Aug 29	1.75	7.2
Greenwood Electric	6 mths to June 30	32.7 (27.8)	3.89 (4.19)	4.3 (4.5)	2	Sept 29	1.5	3.8
Ivery & Shaw Ltd	6 mths to June 30	193.1 (196.6)	0.02 (0.167)	0.09 (0.72)	-	-	-	-
Scottish National	6 mths to June 30	110.3 (103.4)	11.3 (10.3)	7.1 (6.5)	24	Oct 7	2	6.6
Templeton Emerging	6 mths to June 30	154.77 (137.86)	7.44 (6.8)	1.71 (1.44)	1.1	Aug 27	1.1	1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. 10p increased capital. \*Comparatives restated. \*Excludes special 1.2p. \*Amount payable to both ordinary and income shareholders under new capital structure. †Third interim; makes 5.5p to date.

## NEWS DIGEST

## R Dutch/Shell in electricity deal

Royal Dutch/Shell has signed an agreement with Bechtel, the US engineering concern, to negotiate the purchase of a 50 per cent stake in International Generating Company, Bechtel's power generation subsidiary.

The move is part of Shell's plan to expand its interests in electricity over the next five years. Its Shell International Gas offshore is aiming to complete negotiations by the end of September. Shell declined to comment on the possible price of the acquisition.

The company already has power projects in Peru, Namibia and the Philippines.

International Generating is a leading global developer of power projects. It has four plants under construction in the UK, Mexico, Colombia and the Philippines, with a proposed combined output of 2,145MW.

In addition, the company has seven contracts or mandates for developing an extra 4,275MW of capacity and is also pursuing a further 20 schemes with a total capacity of 10,000MW.

*Stefan Wagstaff*

## Britannia bids for BB&amp;EA

As foreshadowed this week, Britannia Group yesterday launched an agreed offer for British Building & Engineering Appliances, its rival construction services company.

The bid of 75p cash a share values BB&EA at about £8.4m. Britannia already holds or has acceptances representing 55.25 per cent of its target's equity.

Britannia, cash-rich following the £10m sale of its housebuilding division in July last year, has been seeking a purchase to complement existing activities. Mr Christopher Powell, chairman, said that as part of a larger group, BB&EA would be in a better position to maximise the value of its businesses, which would be reviewed at an early stage to assess their potential.

BB&EA has swung in and out of profit since being demerged in 1992 from BM Group, the engineer now known as Brunel Holdings. It reported a modest pre-tax profit of £24,000 on sales of £18.2m for the six months to December 31.

BB&EA shares firmed 3p to 724p, while Britannia hardened 24p to 324p. Henry Ansbacher is acting for Britannia; BB&EA is advised by Albert E Sharp.

● Brunel yesterday announced the sale of its Titman Tip Tools subsidiary and its German offshoot to Howle Holdings for £2.15m cash, including repayment of inter-company debt. Brunel said the deal completed its disposal programme, begun some 18 months ago. Howle is funding its move through a placing and open offer of 8.29m shares on a 3-for-7 basis at 26p.

*Graham Deller*

## Avocet placing to raise £5.4m

Avocet Mining has conditionally allotted 3.25m ordinary shares by way of a private placing at 165p to raise about £5.4m.

The proceeds of the placing, which involves shares representing less than 10 per cent of the existing capital, will be used to repay certain outstanding loans and provide working capital.

The directors said the group's working capital forecasts assumed a rise in tungsten prices and a "successful rescheduling" of a number of loan repayments. Failing either of these, a further fundraising exercise or "alternative sources" of working capital might be required.

Avocet's shares fell 5p to 165p yesterday.

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## PROFIT UP INCREASED DIVIDEND

Extracts from the results and from the statement by the Chairman, Mr A. R. Perry.

- Revenue profit before tax rose from £15.5 million to £16.0 million.
- Net property income up from £22.4 million to £23.2 million.
- New property investments acquired.
- Development programme continuing.
- Group property investments up from £310 million to £337 million.
- All interest written off against revenue.
- Net asset value rose to £1.82 per share.
- Total dividend increased from 6.0p to 6.5p.

## Results for the year ended 31 March 1997

	£000's	1997	1996
Investment property rents	25,353	24,983	
Net property income	23,230	22,399	
Revenue profit before tax	16,018	15,475	
Shareholders' funds	217,565	210,131	
Ordinary dividend per share	6.5p	6.0p	

Copies of the full statement may be obtained from G. H. Cairnes, Managing Director, PSIT plc, Fitcham Park House, Lower Road, Fitcham, Surrey, KT22 9HD.

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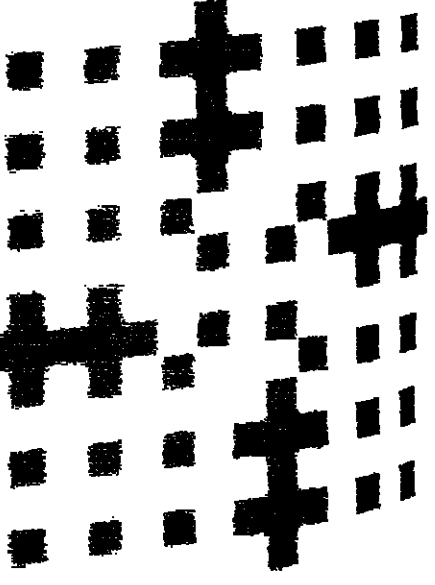
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ACM Global Fund	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
ACM Global Fund	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Credit Investment Funds - Contd.									
Credit Investment Fund	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Credit Investment Fund	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Merrill Lynch Asset Management - Contd.									
Merrill Lynch Asset Management	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Merrill Lynch Asset Management	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
TCW Luxembourg Funds									
TCW Luxembourg Funds	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
TCW Luxembourg Funds	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Carroll Assurance Group									
Carroll Assurance Group	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Carroll Assurance Group	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Financial International Ltd									
Financial International Ltd	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
Financial International Ltd	LU0123456789	100.00	1.2	5.1	12.3	18.5	25.7	32.9	40.1
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## DIVERSIFIED INDUSTRIALS

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	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## ELECTRICITY

[illegible]

### ELECTRONIC & ELECTRICAL EQUIPMENT

[illegible]

## LOADING MATS, & MERCHANTS

[illegible]

## PHYSICALS

[illegible]

## ENGINEERING

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## HOUSEHOLD GOODS

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## URANCE

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**THE RECENT GROWTH  
IN SERVICES AT  
LIVERPOOL AIRPORT IS  
A SYMBOL OF  
MERSEYSIDE'S GROWING  
PROSPERITY.**

ROD HILL,  
MANAGING DIRECTOR,  
LIVERPOOL AIRPORT PLC

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**Highs & Lows shown on a 52 week basis**

<http://www.rockwell.com>

## US INDICES

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## 31

[illegible]

**4 pm close July 23**

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EASDAQ											
EASDAQ is a fully regulated independent pan-European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Dealers and Banks from across Europe.											
Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
AdiCard	US\$3	-0.125	0	8.26	3	Lemini & Haeupli	US\$29.90	-0.25	4400	30.125	25
Aerotec Systems	US\$8.375	-0.125	11750	8.125	9.375	Manor Int'l	US\$0.65	0	11	0.75	0.125
Amesex	FF14	-0.5	15000	18	18	LSOR25	-0.25	0	25	125	0
Dr Solamint ADS	US\$21.25	0.125	0	28.375	16.5	Protech	US\$1.875	-0.125	0	2.125	2.375
Solent Telecom ADS	US\$27.25	0	12	18.25	5.375	Scheller-Blechman	US\$11.50	-8	10450	11.50	800
Information	US\$10.125	-0.125	3750	10.25	10.125	Tspiral Int'l	US\$10.00	+20	2000	3318	3000



# Dow tests water above 8,100 level

## AMERICAS

US stocks opened strongly taking the Dow Jones Industrial Average through the 8,100 points level, but prices pulled back around mid-session, writes John Lobato in New York.

By early afternoon, the Dow had stood 38.09 higher at 8,089.74 while the Standard & Poor's 500 index was also stronger, up 5.55 at 936.53.

The technology-heavy Nasdaq composite was also higher, up 6.36 at 1,570.21.

Tuesday's rally in the stock and bond markets was sparked by Federal Reserve chairman Mr Alan Greenspan's Humphrey-Hawkins testimony, which left investors expecting no near-term interest rate increase.

Mr Greenspan's comment that the Federal Reserve "will need to be changed at some point to foster sustainable growth and low inflation", eased the market's fears that the Fed would raise rates at its next meeting in mid-August. "This eliminated the major concern people have had in this market," said Mr Bill Meehan, at Prudential Securities in New York.

Investors have adjusted their expectations of earnings upwards since the start of the year as corporations

continue to reap earnings gains from restructuring operations, said Mr Meehan. Many portfolio managers are also helping to buoy the market as they try to raise the performance of their funds.

Many funds have reported gains with the growth in the S&P 500, and continue to buy into the market when it dips. Foreign investors are also expected to continue buying into the US market.

Financial markets also received a boost from a better than expected budget surplus for June, released by the Treasury Department Tuesday afternoon.

Among Dow stocks, Boeing gained 3% at \$69.40, on news that the EU would not prevent its planned merger with McDonnell-Douglas.

IBM was also a strong gainer, adding 2% at \$105.75. Among technology companies, Microsoft slid 1% to \$143.75, while computer maker Dell Computer rose 5% at \$185.

Semiconductor chip maker Intel also gained, up 1% at \$90.

TORONTO held on to its gains at mid-session, avoiding the volatility seen on Wall Street and the TSX-300 composite index was 39.54 higher at 4,763.59 in volume of 47.5m shares.

SAO PAULO slumped more than 3 per cent and

then rallied strongly in volatile trading following reports that the government's leader in the lower house of Congress, Luis Eduardo Magalhães, was about to resign.

By early afternoon, the Bovespa index was showing a gain on the day of 193 points or 1.58 per cent at 12,425.

SANTIAGO rose strongly following the testimony by US Federal Reserve chairman Alan Greenspan and increased confidence that Brazil's exchange rate will remain stable. At mid-session, the IPSA index was up 1.6 per cent to 181.04.

## SOUTH AFRICA

Johannesburg pulled ahead as interest rate-sensitive stocks rose as a strong outlook for a cut in South African rates.

The overall index added 16.7 to 7,446.5 while industrials broke through 9,000 points for the first time to close up 4.74 at 9,032.3.

Industrials also gained on the back of the announcement of a R2bn radio technology contract from telecommunications utility Telkom. Golds edged up in response to the bullish price which hovered around \$324 an ounce. The gold index fell 10.8 to 982.4.

## EUROPE

European markets gave a euphoric response to the transatlantic economic signals and the firm dollar. Sharp rises were recorded in many of the leading bourses after a string of record-setting performances.

PARIS closed at a record, with the CAC 40 index 82.40 higher at 3,003.53, its first close above 3,000 points. The day's peak of 3,026.99 was also an all-time high.

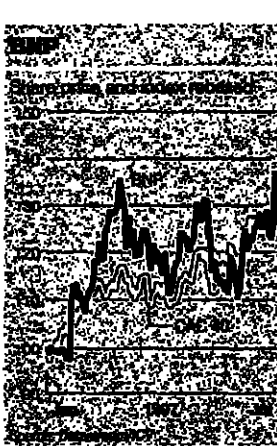
The advance was fuelled by speculation in banking stocks after Deutsche Bank said that it was considering an acquisition in the French banking sector.

French bank stocks rose sharply, with both Credit Commercial de France and Banque Nationale de Paris suspended briefly after surging by the maximum 10 per cent permitted. CCF closed up 7.8 per cent at FF282.8, while BNP was up just over 10 per cent at FF274.90.

Other financials included Paribas, up 7 per cent at FF430.70, and Bancepar, up 4.6 per cent at FF748.

However, Mr Ian McEwen at Lehman Brothers described the speculation as "very ill-founded. We see an outside, outside chance of one deal making sense, but the chances of a bid for BNP are very slim."

Other leading stocks included Renault, which closed up 8.6 per cent at FF179 after reaching an earlier high of FF187.80 in heavy volume; Peugeot, up



4.5 per cent at FF1616; and LVMH, up 4.3 per cent at FF1,636.

A record-setting FRANKFURT pulled back from its best levels late in a session which saw overcapacity triggering problems that halted trade for several hours. The Dax index, up 4.3 per cent at 4,406.08, put in its best performance this year while the Dax-Industrie Dax finished up 67.18 at 4,394.82, having peaked at 4,441.08.

Dresdner Bank forecast the Dax would top the 5,000-point level in the next two weeks, but predicted a level of 4,500 points by the end of the year.

Banks remained in the spotlight, Deutsche Bank soared DM65.50 to DM285.50 after the bank bested forecasts with a 27.5 per cent jump in net income in the first half of 1997 as rallying markets proved a diet of profits.

"It has rained porridge in

## FTSE Actuaries Share Indices

THE EUROPEAN SERIES									
Index	July 23	July 24	July 23	July 24	July 23	July 24	July 23	July 24	July 23
FTSE 100	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71
FTSE 250	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71
FTSE 100	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71
FTSE 250	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71	2742.71

Source: FTSE Actuaries. Indices: 100 = 1984=100. 250 = 1984=100. 1000 = 1984=100. 1000 = 1984=100. 1000 = 1984=100.

the markets this year and we had the right spoon," Mr Rolf Brenner, chief executive, told a news briefing.

The Bavarian bank merger candidates remained a strong market. Varentsbank shot up to an intraday peak of DM125 and by the close it had managed to hold on to a rise of DM11.50 at DM111.50. HypoBank shares rose DM5.10 or 6.9 per cent at DM78.50. Among the insurers, Allianz climbed 37.50 or 8.3 per cent to DM498.0.

The decision to leave the composition of the Dax index unchanged until next year was seen as negative for Adidas, which had been tipped to join. The company lost DM7.80 to DM22.2. Karstadt dropped DM24.50 to DM68.00 in spite of being allowed to remain an index constituent.

ZURICH jumped 3.4 per cent as banking and drug issues, especially Novartis, led the way. The SMI index rose 192.8 to 5,898.8 in heavy turnover estimated at about SF3.6bn.

Novartis rose SF187 to SF2,446 on positive expectations ahead of today's first-half sales figures. Roche certificates, by com-

cent at an all-time high of 965.45 after reaching 1,006.36. The focus remained on financials and high-tech stocks. ASM Lithography led the high-tech sector with a gain of FF16.40 to FF178.30, off an early high of FF185, after better-than-expected first-half earnings.

ABN AMRO was the most active stock, trading up FF1.80 at FF49.90 in turnover of 14.9m shares as it is favoured by private investors among financials.

ING rose FF1.80 to FF104. Aegon was up FF6 at FF161 and Fortis Amey FF4 at FF98.90.

BRUSSELS advanced to another record close with the Bel-20 index up 62.04 or 2.4 per cent at 2,601.56 after peaking at 2,606.88.

VIENNA jumped 3.2 per cent to close at a record high, boosted by the strength in neighbouring markets and high turnover in preferred shares of Bank Austria after Salomon Brothers upgraded its recommendation on the stock.

The ATX index climbed 44.34 to 1,452.78 as Bank Austria preferred rose Sch21 to Sch48. OMV, the oil and energy market leader, was the day's best performer with a rise of Sch84 to Sch1740.

MOSCOW climbed 4.3 per cent as foreign demand supplemented steady domestic buying. The RTS index closed 472.2 higher at 492.6.

Written and edited by Michael Morgan and Clare Gascoigne

## East European fears may be overstated

East European markets are counting the cost of the extensive flooding over the last fortnight, but analysts believe western concerns may have been overstated, writes Clare Gascoigne.

Due to the worst-hit districts has been Wrocław, one of the main industrial areas in Poland. Four stocks are still suspended from the stock market - paint manufacturer Polifarb Wrocław, engineer Rafako, electrical equipment maker ZEW and chemicals group Viscoplast - because their plants are flooded. Mr Douglas Hefler at Foreign & Colonial says that the situation is far from clear, but he believes the effects may be less than first thought. "For Poland, the most pessimistic estimates I've seen are of a 1/2 per cent fall in GDP and a 1 per cent rise in inflation," he said.

On Tuesday the Polish government

approved plans to borrow \$800m from the World Bank and the European Investment Bank to help finance relief schemes, but analysts do not believe the move will have a significant effect on the budget.

The Prague index, which stood at 1,595 on July 10, recovered slightly to close at 1,476, up 7.4 points on the day.

In the Czech Republic, where the government has estimated the damage at between \$1.45bn and \$2.9bn, Mr Hefler said the concerns were wider than the damage caused by the floods. "It's really too soon to listen to rumours," he said. The PX50 index closed down 1.5 points at 501.2.

Allianz, Germany's largest insurer and the group with the greatest exposure in the badly-hit Oder valley, said it expected flood claims could amount to hundreds of millions of marks.

# Bangkok drops 4.3% as baht tumbles

## ASIA PACIFIC

Worries about the Thai baht plunge to a record low against the dollar prompted a sell-off in BANGKOK as investors anxiously booked profits. The SET index closed down 28.50 or 4.3 per cent at 631.25 in turnover of 87.1bn.

Banks, which lost 6.9 per cent, and the finance sector, down 6.7 per cent, were among the day's biggest losers. Thai Farmers Bank topped the active list, falling Bt11 to Bt107 while Nava Finance fell Bt2.75 to Bt25.25.

TOKYO erased earlier gains to fall for the third consecutive session. Investors' concerns about the financial sector's health hit banks and securities houses, while blue-chip exporters succumbed to profit-taking, writes Gwen Robinson.

The Nikkei 225 average fell 26.51 to 20,130.51 after moving between 19,999.80 and 20,324.03. Stocks opened moderately higher on positive sentiment generated by New York's overnight surge and the rise of Nikkei-225 futures prices in Chicago.

However, investors took profits toward the middle of the day and selling accelerated on fresh rumours about problems at several financial institutions, including Sanyo Securities, a second-tier broker, and Sakura Bank which denied incurring big losses on derivatives dealings.

Volume rose from 379m shares to an estimated 515m. Declines led advances 662 to 639 with 183 unchanged. The Topix index of all first-section stocks fell 1.97 to 1,529.63 and the capital-weighted Nikkei 300 was off 0.13 at 297.96. In London, the ISE/Nikkei 50 index rose 8.31 to 1,688.41.

Sanyo Securities fell Y14 to Y156 on reports that it was planning to liquidate its non-bank financial affiliate. The broker later denied the reports. Sakura Bank fell Y27 to Y84, but Nomura Securities rose Y40 to Y1,530.

Blue-chip exporters were mixed. Some leading issues fell prey to profit-taking while others recouped losses to rack up substantial gains toward the day's end. TDK fell Y70 to Y9,080 and Pioneer Electronic Y20 to Y2,900. Among semiconductor-related issues, Advantest

climbed Y170 to Y9,990, Kyocera Y10 to Y9,290, and Tokai Electron Y20 to Y6,940.

Pharmaceuticals continued to gain ground. Sanyo rose Y60 to Y4,360 after reaching an intraday record of Y4,480. Takeda Chemical Industries rose Y30 to Y3,430, Yamanouchi Pharmaceutical Y20 to Y3,130, and Taisho Pharmaceutical Y60 to Y3,340.

In Osaka, the OSE average fell 39.80 to 20,597.73 and volume rose to 27.8m shares. HONG KONG powered

ahead to a record high, taking its lead from the overnight performance of Wall Street. The Hang Seng index finished at 15,738.81, up 282.03 points or 1.8 per cent.

HBSC, under profit-taking pressure recently, rebounded HK\$4 at HK\$265. Property issues were generally higher on hopes that local property prices would soon bottom out in response to the steady outlook for interest rates.

KUALA LUMPUR rose 1.6 per cent as local and foreign institutional bargain-hunters snapped up recently weak-

ened index-linked stocks. The KLCSE composite closed 18.08 higher at 1,034.07.

KARACHI dropped 2.5 per cent, hit by profit-taking after the 12.6 per cent surge of the previous seven sessions as foreign investors rediscovered the market. The KSE-100 index lost 50.64 at 1,965.87.

BOMBAY jumped 1.55 per cent on a third day of strong overseas demand. The BSE-30 index rose 64.84 to 4,261.13 as investors targeted multinationals and software stocks.

## Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms			Local currency terms		
		July 18	% Change	% Change	July 18	% Change	% Change
Latin America	(247)	722.61	-7.6	+34.3	700.725.08	-6.2	+20.2
Argentina	(30)	1,142.48	-5.2	+20.2	1,142.48	-5.2	+20.2
Brazil	(89)	567.18	-13.7	+48.8	567.18	-13.7	+48.8
Chile	(46)	785.02	-3.4	+38.3	785.02	-3.4	+38.3
Colombia	(14)	688.06	-1.3	+30.8	688.06	-1.3	+30.8
Mexico	(63)	727.01	-3.0	+37.3	727.01	-3.0	+37.3
Peru	(17)	243.58	-7.6	+38.8	243.58	-7.6	+38.8
Venezuela	(8)	1,005.98	-5.4	+38.2	1,005.98	-5.4	+38.2
Asia	(708)	232.21	-2.9	+8.1	232.21	-2.9	+8.1
China	(27)	67.93	+12.0	+19.3	67.93	+12.0	+19.3
South Korea	(158)	82.54	-5.2	+8.8	82.54	-5.2	+8.8
Philippines	(42)	228.04	+8.5	+22.3	228.04	+8.5	+22.3
Taiwan, China	(6)	168.05	+2.1	+28.8	168.05	+2.1	+28.8
India	(77)	103.71	-4.1	+18.6	103.71	-4.1	+18.6
Indonesia	(49)	128.90	-3.1	+1.0	128.90	-3.1	+1.0
Malaysia	(168)	228.53	-5.9	+23.7	228.53	-5.9	+23.7
Pakistan	(2)	282.18	+4.3	+44.2	282.18	+4.3	+44.2
Sri Lanka	(5)	130.74	-3.4	+17.0	130.74	-3.4	+17.0
Thailand	(57)	149.28	+4.8	+32.8	149.28	+4.8	+32.8
East/Mid East	(288)	182.80	-0.8	+21.2	182.80	-0.8	+21.2
Egypt	(7)	55.88	+0.4	+20.4	55.88	+0.4	+20.4
Greece	(10)	85.33	-0.5	+5.8	85.33	-0.5	+5.8
Israel	(54)	341.78	-4.6	+11.0	341.78	-4.6	+11.0
Hungary	(12)	291.45	+0.6	+48.1	291.45	+0.6	+48.1
Italy	(40)	128.11	+0.6	+20.1	128.11	+0.6	+20.1
Jordan	(3)	208.52	+2.9	+11.7	208.52	+2.9	+11.7
Morocco	(3)	122.14	+0.5	+15.8	122.14	+0.5	+15.8
Poland	(31)	616.88	-7.6	+15.8	616.88	-7.6	+15.8
Portugal	(28)	193.48	-2.7	+32.4	193.48	-2.7	+32.4
Russia	(15)	167.49	-2.2	+17.45	167.49	-2.2	+17.45
Slovakia	(3)	81.44	-1.5	+7.17	81.44	-1.5	+7.17
South Africa	(83)	237.27	+1.2	+13.7	237.27	+1.2	+13.7
Turkey	(58)	251.78	-3.4	+35.9	251.78	-3.4	+35.9
Zimbabwe	(5)	643.29	+7.5	+35.9	643.29	+7.5	+35.9
Composite	(1222)	328.91	-4.0	+11.8	328.91	-4.0	+11.8

Indices are calculated at end-of-weekly changes are percentages measured from the previous Friday. Data date: Dec 1996-1997 except those noted which are: (1996) 1996; (1997) 1997; (1998) 1998; (1999) 1999; (2000) 2000; (2001) 2001; (2002) 2002; (2003) 2003; (2004) 2004; (2005) 2005; (2006) 2006; (2007) 2007; (2008) 2008; (2009) 2009; (2010) 2010; (2011) 2011; (2012) 2012; (2013) 2013; (2014) 2014; (2015) 2015; (2016) 2016; (2017) 2017; (2018) 2018; (2019) 2019; (2020) 2020; (2021) 2021; (2022) 2022; (2023) 2023; (2024) 2024; (2025) 2025; (2026) 2026; (2027) 2027; (2028) 2028; (2029) 2029; (2030) 2030; (2031) 2031; (2032) 2032; (2033) 2033; (2034) 2034; (2035) 2035; (2036) 2036; (2037) 2037; (2038) 2038; (2039) 2039; (2040) 2040; (2041) 2041; (2042) 2042; (2043) 2043; (2044) 2044; (2045) 2045; (2046) 2046; (2047) 2047; (2048) 2048; (2049) 2049; (2050) 2050; (2051) 2051; (2052) 2052; (2053) 2053; (2054) 2054; (2055) 2055; (2056) 2056; (2057) 2057; (2058) 2058; (2059) 2059; (2060) 2060; (2061) 2061; (2062) 2062; (2063) 2063; (2064) 2064; (2065) 2065; (2066) 2066; (2067) 2067; (2068) 2068; (2069) 2069; (2070) 2070; (2071) 2071; (2072) 2072; (2073) 2073; (2074) 2074; (2075) 2075; (2076) 2076; (2077) 2077; (2078) 2078; (2079) 2079; (2080) 2080; (2081) 2081; (2082) 2082; (2083) 2083; (2084) 2084; (2085) 2085; (2086) 2086; (2087) 2087; (2088) 2088; (2089) 2089; (2090) 2090; (2091) 2091; (2092) 2092; (2093) 2093; (2094) 2094; (2095) 2095; (2096) 2096; (2097) 2097; (2098) 2098; (2099) 2099; (2100) 2100; (2101) 2101; (2102) 2102; (2103) 2103; (2104) 2104; (2105) 2105; (2106) 2106; (2107) 2107; (2108) 2108; (2109) 2109; (2110) 2110; (2111) 2111; (2112) 2112; (2113) 2113; (2114) 2114; (2115) 2115; (2116) 2116; (2117) 2117; (2118) 2118; (2119) 2119; (2120) 2120; (2121) 2121; (2122) 2122; (2123) 2123; (2124) 2124; (2125) 2125; (2126) 2126; (2127) 2127; (2128) 2128; (2129) 2129; (2130) 2130; (2131) 2131; (2132) 2132; (2133) 2133; (2134) 2134; (2135) 2135; (2136) 2136; (2137) 2137; (2138) 2138; (2139) 2139; (2140) 2140; (2141) 2141; (2142) 2142; (2143) 2143; (2144) 2144; (2145) 2145; (2146) 2146; (2147) 2147; (2148) 2148; (2149) 2149; (2150) 2150; (2151) 2151; (2152) 2152; (2153) 2153; (2154) 2154; (2155) 2155; (2156) 2156; (2157) 2157; (2158) 2158; (2159) 2159; (2160) 2160; (2161) 2161; (2162) 2162; (2163) 2163; (2164) 2164; (2165) 2165; (2166) 2166; (2167) 2167; (216



# INVESTMENT INTO THE UK

The Conservatives put Britain ahead of the rest of the EU in attracting foreign investment. Stefan Wagstyl looks at what Labour must do to maintain the momentum

## New tests for money magnet

The tide of foreign investment into Britain is flowing stronger than ever. Despite fears that increasing international competition for investors might divert some of it to other European countries, foreign direct investment has in the last year come to the UK in record amounts. The country's stock of direct investment rose £9.3bn to £160bn, more than three times the level a decade ago, according to government figures released last week.

The year's new projects include Europe's biggest ever inward investment - the £1.7bn project by LG of South Korea to build an electronics assembly plant and semiconductor factory in South Wales. There has also been a record crop of expansions of existing investments - including announcements for plans for new British-made models by Toyota Motor, Nissan Motor and Honda Motor, the Japanese car makers.

Foreign companies have ranged far beyond the realms of manufacturing to invest in British service and utility industries, notably in a spate of acquisitions by US groups of regional electricity companies and in heavy investment in telecommunications networks. They are also investing in ever more sophisticated operations in the UK - such as research and development and marketing and management centres - a prime example is the laboratory that is to be built in Cambridge by Microsoft, the US software company.

The new Labour government wants to make the most of increased interest in R&D since it squares with its own plans to create more high-skill high-pay jobs in

to companies planning job-creating investments. The rising level of grants has led to criticism of the system, particularly in cases where different British regions have found themselves competing for the same scheme. Labour is reviewing the aid regime as part of its comprehensive spending review but drastic changes seem unlikely. Ministers take comfort from the fact that the UK generally offers potential investors less than other EU countries.

There is little agreement on the precise level of foreign direct investment, because there is no requirement in the UK to report investment plans. Companies often prefer to keep quiet about investments in new products or processes for fear of counter-attack by their competitors.

The government's figure of £9.3bn for the year to the end of March compares with a much larger total of US\$32.8bn for the calendar year 1996 published this month by the Organisation for Economic Co-operation and Development. Different ways of measuring flows, including mergers, acquisitions and joint ventures account for at least some of the discrepancy.

But whatever its absolute level there is no doubt that foreign investment around the globe has soared in the 1990s as companies respond to the pressures of international competition and the opportunities created by worldwide economic deregulation. Britain, with its well-established tradition of economic openness combined with membership of the EU, is benefiting from these economic forces more than most other countries. According to the OECD, the UK is second only to the US among developed countries in attracting direct investment and a long way ahead of France in third place.

The other side of the coin is that the UK is also a leading source of external investment for other countries, again second only to the US. In recent years, the outflow of direct investment has comfortably exceeded inflows (see OECD chart, page 3). In 1996 the UK invested \$43.7bn overseas against the \$32.8bn inflow. This is not a sign of economic weakness, but of Britain's openness to international trade and investment.

Inward investment needs to be kept in context. The money foreign companies invest in the UK amounts to under 10 per cent of total industrial investment, running at around £100bn on the government's figures. External investment is not a substitute for internally generated growth, particularly in an advanced economy such as the UK. Labour has recognised the significance of local efforts to stimulate investment by its plans to establish regional English development agencies (RDAs) to mirror those that already operate in Wales, Scotland and Northern Ireland. Mrs Beckett says that the RDAs' prime role will not be competing for foreign investment but in harnessing local resources.

Nevertheless, the benefits of foreign investment go far beyond the capital involved. The government estimates that since 1979 nearly 500,000 UK jobs have been created by overseas businesses. Workers at foreign-owned companies tend to be better paid and produce more per capita than the national average and to stay in their jobs longer than most other British employees. About half the output of foreign-owned companies is exported.

Moreover, foreign companies have brought new technologies, skills and management practices to the UK, which have helped to improve Britain's international competitiveness. The benefits are most apparent in the motor industry, where Japanese car makers have

raised standards at hundreds of component plants. In electronics, US, German, Japanese and, increasingly, South Korean companies have helped to rebuild an industry in which Britain was struggling to maintain an international presence.

With Britain's role as a magnet for foreign investment so well established it is difficult to see what might deter more investment in future. Already some 60 per cent of investment is re-in

Continued on page 8



### IN THIS SURVEY

■ **Damned if we do, damned if we don't?**  
The implications of European economic and monetary union for investment in Britain  
page 2

■ **New Labour, new role?** Margaret Beckett, secretary of state for trade and industry, talks to the FT about the government's hopes for FDI  
page 3

■ **The big four:** how Japanese, Korean, American and German companies see the UK  
pages 4, 5 and 6

■ **A site to remember?** The sophisticated marketing used to lure overseas investors to British business parks  
page 7

■ **Service access:** the American influence on two of the UK's deregulated industries  
page 8

Illustration: Simon Fell

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An estimated 500,000 UK jobs have been created by foreign companies since 1979

Britain. Mrs Margaret Beckett, the trade and industry secretary, says: "The thing that has always worried people about inward investment into the UK is it is just screwdriver assembly. I think there are very encouraging signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development."

Labour says it is just as committed to promoting foreign investment as the Conservative administrations that presided over its unprecedented expansion during the past 15 years. Mrs Beckett's first overseas trip as minister was to Japan, the source of the largest flow of new investment in recent years, to deliver a personal message of welcome to the chief executives of top Japanese companies.

The secretary of state says Labour remains wedded to the pro-business policies it developed before the election, notably commitments to macro-economic stability, co-operative industrial relations and investment in education. The government also plans to maintain co-operative ties with the rest of the EU - a key attraction for the many foreign companies that are using the UK as a base for their European businesses.

Labour's message, particularly its emphasis on stability, has been welcomed by foreign companies. Mr Cegill Shin, president of the European subsidiary of Samsung, the South Korean group with electronics interests, says: "Probably the most important factors are the stability of the UK economy and the UK government's supportive approach to inward investors."

Like other countries, the UK also offers financial aid

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3 INVESTMENT INTO THE UK

INTERVIEW

Margaret Beckett, secretary of state for trade and industry

# Screwdriver assembly out, science in

The government wishes Britain to be seen as a base for R&D as well as manufacturing

For Mrs Margaret Beckett there is a clear difference between the new Labour government's inward investment policies and those of its Tory predecessor.

While much of the approach remains the same, Labour is changing the emphasis from promoting the UK as a low-cost production base to a centre of "quality, added-value, high technology and market leadership".

"One of our principal worries about the government we replaced was that it seemed to us to be drifting dangerously and heading into the argument that we competed fundamentally on lowest cost irrespective of what happened to quality," says Mrs Beckett, the trade and industry secretary, whose department is responsible for inward investment.

"Our essential argument is that this was a counsel of despair for Britain... It seemed to us that Britain had no choice but to aim for quality, added-value, the exploitation of the best technology, and looking for markets in which we can be among the leading players."

Mrs Beckett says that this approach to inward investment reflects Labour's belief in promoting education and investment across industry as a whole. It also goes "with the grain" of foreign investors' own strategies, in raising the quality of the activities they carry out in the UK. Worries Britain was little more than a base for "screwdriver assembly plants" have been swept away by continuing investments in research and development in the UK and in deepening links with British suppliers.

"I think there are very encouraging

signs that as inward investors have become established here they are starting to see Britain as a place with real potential for creativity and development. People who came in initially with less demanding requirements are starting to see Britain as a good place for better things in the future," says Mrs Beckett, whose Derbyshire constituency is near a Toyota Motor plant.

However, Mrs Beckett would not like to have her emphasis on promoting investments with high added-value jobs to be mistaken for a lack of interest in other types of project. "It would be a mistake to try to be too constrictive. I would not like to give any impression that we are seeking to discriminate against any potential investor." She adds that some schemes that might seem modest at the start can become more attractive as they develop over the years.

Mrs Beckett has lost no time in seeking to reassure foreign companies that Labour will remain as committed to welcoming investment from overseas as the previous government. Her first foreign trip was to Japan, the biggest source of new foreign investment in the past 20 years. In a keynote speech there she pledged to continue welcoming foreign investment, to maintain economic stability, and to promote co-operative industrial relations.

She also promised to approach EU relations in a business-like manner - in contrast to the rhetoric generated during the general election campaign. "One hugely important area where assurance was sought and given was in our relations with the EU. There was clearly a good deal of anxiety about the developing debate in the UK and a good deal of concern it would do harm to the interests of the business community... if that climate of debate continued. Investors wanted



Margaret Beckett announcing new investment in Britain Bureau figures last week. She says investors are now seeing Britain as a place with real potential for creativity and development.

reassurance that the new government had a positive attitude to the EU and I was able to give it," she says.

The secretary of state adds that concerns that Labour might take an ideologically dogmatic approach to economic policy are wide of the mark. "This is a government which is very practical in its approach to business concerns. I don't think the Labour party has ever been as dogmatic as it's portrayed."

She says Labour will take a practical view of European monetary union. For

this is what business - including the foreign investor - wants: "My impression is that like everybody else they don't know what the deal [over Euro] is, so they don't know where our best interests lie. But what they most want is that the government's approach to the euro will be governed by a hard-headed assessment and that when that assessment is made we shall be anxiously seeking the views of the business community."

Mrs Beckett believes there is no sign of foreign investment in the UK

diminishing. She says that, with 60 per cent of the inflow accounted for by companies already established in the UK, Britain has a solid base on which to build. But she adds that competition is increasing: other EU countries, which once seemed less interested in attracting non-EU investors, are now very keen to secure projects.

"The figures do fluctuate from year to year. We are operating in a slightly more difficult environment because a few years ago other EU countries were not actively competing for inward

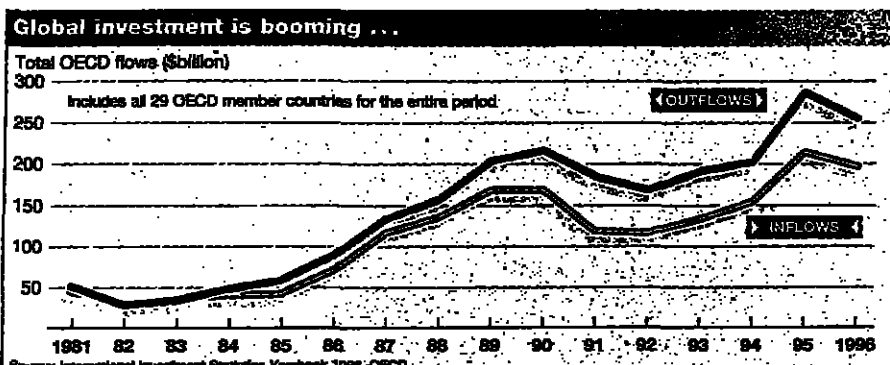
investment but as they have seen the changes it has wrought in Britain they have become more welcoming. However, we were neither late nor reluctant partners and one of the assets that we have is the duration of our relationships."

Mrs Beckett acknowledges there has been concern about the rising level of government subsidies for job-creating investments. She says that subsidies do not on their own make schemes happen but do play a role when location is being considered. Subsidy policy is being examined as part of the government's comprehensive spending review. Mrs Beckett will not be drawn on the possible outcome, but says that the review will address concern about subsidies. "If you get into an unwise spiral of financial bids and counter-bids, then everybody ends up getting less for their money."

The government would be "very unhappy" about companies moving from one part of the UK to another simply to secure subsidies, she says. More broadly, the issues need to be discussed both within the UK and in the EU.

Mrs Beckett sets considerable store by the development agencies that Labour is planning to establish to promote regional English economies. These would be based on Scottish Enterprise and the Welsh Development Agency, which have done much to attract foreign investment to Scotland and Wales. Like them, however, their primary role would not be to promote foreign investment per se, but to encourage overall economic development. "If the RDAs were to see their principal jobs as attracting inward investment that would be a very big mistake because there is the whole world of the business community in which they should operate."

Stefan Wagstyl

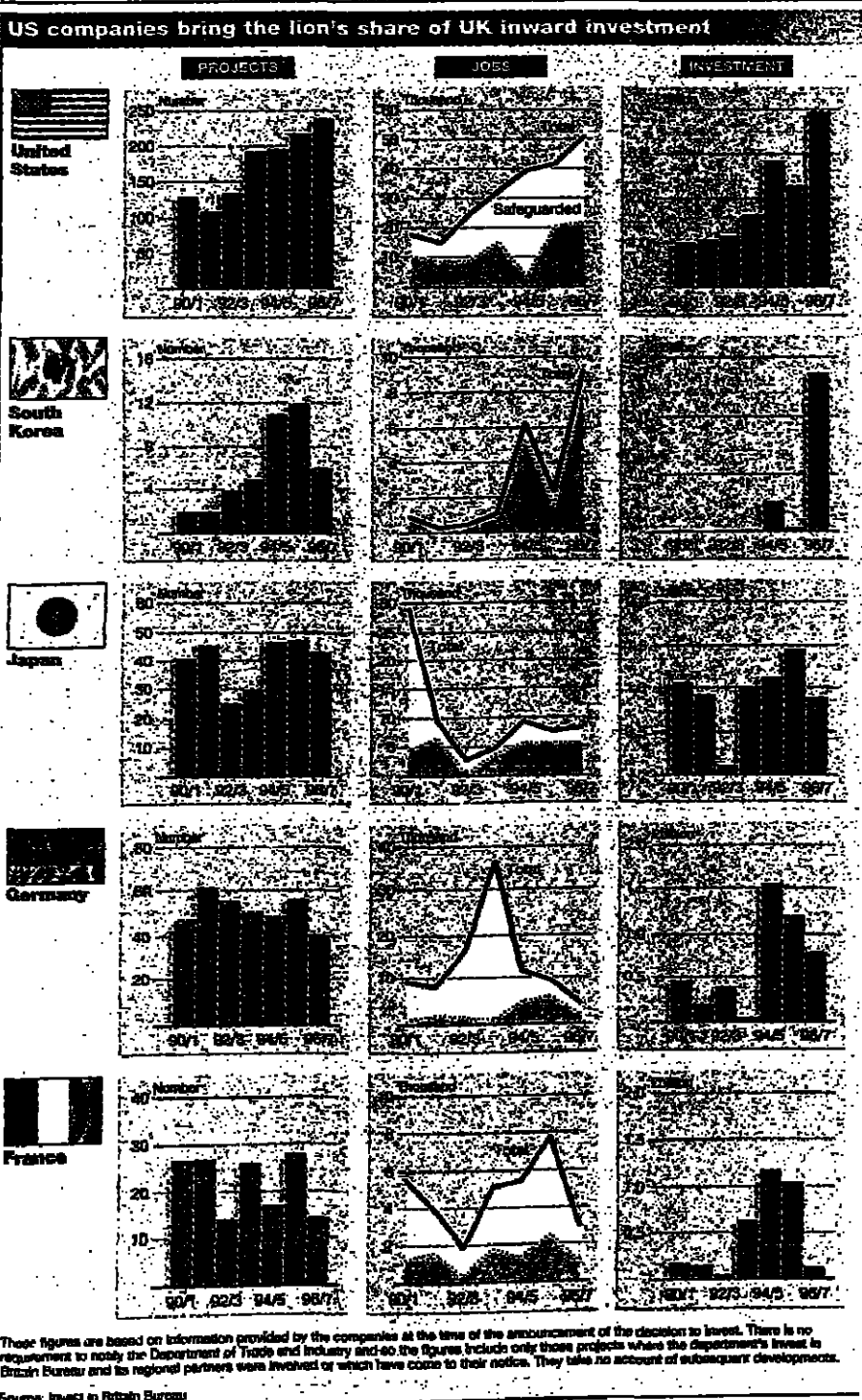


... with the UK among the biggest beneficiaries

	1994	1995	1996	1994	1995	1996
UK	10,487	22,577	22,577	17,134	20,573	27,893
Germany	1,548	12,050	12,050	17,134	20,573	27,893
Italy	1,548	12,050	12,050	17,134	20,573	27,893
France	12,050	12,050	12,050	17,134	20,573	27,893
Other W. Europe	12,050	12,050	12,050	17,134	20,573	27,893
E. Europe	12,050	12,050	12,050	17,134	20,573	27,893
US	12,050	12,050	12,050	17,134	20,573	27,893
Canada	12,050	12,050	12,050	17,134	20,573	27,893
Mexico	12,050	12,050	12,050	17,134	20,573	27,893
Japan	12,050	12,050	12,050	17,134	20,573	27,893
Other Asia-Pacific	12,050	12,050	12,050	17,134	20,573	27,893
Total OECD	152,790	215,104	198,325	202,083	229,284	258,178

1 Austria, Belgium-Luxembourg, Denmark, Finland, Greece, Ireland, Iceland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey  
2 Czech Republic, Hungary, Poland 3 Australia, South Korea, New Zealand

Source: International Investment Statistics Yearbook 1996, OECD



## OUR £25 MILLION RE-INVESTMENT ON MERSEYSIDE IS DOWN TO THE QUALITY OF THE LOCAL WORKFORCE

Attracting major companies is one way to test the mettle of an area.

But the ultimate compliment is when a company is so impressed it increases its investment there.

So thanks, Kodak, for the compliment.

After nearly 50 years on Merseyside, the American giant decided to re-invest and expand here, making it their biggest chemicals operation in Europe. They have found the operation to have one of the most productive workforces of any of their plants in Europe, and the level of job applicants is always of the highest quality.

"There is a sense of energy and 'can-do' mentality in our workforce which mirrors our own philosophy."

So what's so special about Merseyside? The grants at local, national and European Union levels? Not one but three Training and Enterprise Councils? The number of good sites? One of the most sophisticated telecommunications systems in Europe?

The co-operation between new and existing investors to pool their knowledge of the region?

Well, yes, yes, yes, yes and yes.

But there's something on Merseyside only Merseyside can ever have - one and a half million Merseysiders.

As existing investors like Barclays, Ford, OVC and General Motors have discovered, the people here have adaptability and enthusiasm running in their veins.

They've taken to training and retraining with a vengeance. Contributing to productivity levels that are 12% higher than the national average.

"New working practices have been implemented quickly and efficiently."

And the workforce at Kodak? They've an enviable reputation for meeting quality standards and adopting new management systems.

For instance, a new business development of supplying photographic materials to hundreds of mini-labs throughout the UK has already achieved a Perfect Delivery level of 98% OTIFNE (On Time, In Full, No Errors) when 90% is regarded as excellent. They are not however resting on their laurels as they strive for a perfect 100%.

That's why Kodak has poured an extra £25 million into their Kirby plant in the last 3 years.

So whether you're in the photographic business or not, one thing's for certain.

Developing companies need look no further than Merseyside.



IVON CARNALL  
FACTORY MANAGER, KODAK

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## 4 INVESTMENT INTO THE UK

THE VIEW FROM JAPAN • by Bethan Hutton

# Old names, new projects

The big investors are renewing their commitments. A look at factors that explain why

It is now 25 years since the first Japanese manufacturers arrived in the UK. When the first three companies made their investments in 1972, that small step passed almost unnoticed. Now, Japanese businesses in the UK are hard to miss: more than 260 Japanese companies have set up operations, creating more than 65,000 jobs.

The importance of Japanese investment in the UK was demonstrated by the first overseas trip made by the new secretary of state for trade and industry, Mrs

Margaret Beckett. During her first month in office, she flew to Japan to reassure Japanese industry that the new government was as investment-friendly as its predecessor. She also faced questions about Labour's attitude to European economic and monetary union, an understandable concern for Japanese companies, as the main aim for many of their UK operations is to be closer to European markets.

Increasingly, however, British-made products from Japanese companies are being shipped elsewhere, including back to Japan. Nissan makes the English origins of its Primera model a selling point back in Japan – the image of the Jaguar and the Mini have helped give British cars a reputation for style and quality.

Nissan, which was the first Japanese car maker to set up shop in the UK, 25 years ago, announced in January this year that it will make a third model at its Sunderland plant from the year 2000. This will not only create 800 new jobs, with more than £200m of new investment, but will lead to more design work being carried out in the UK – something that the government is trying to encourage.

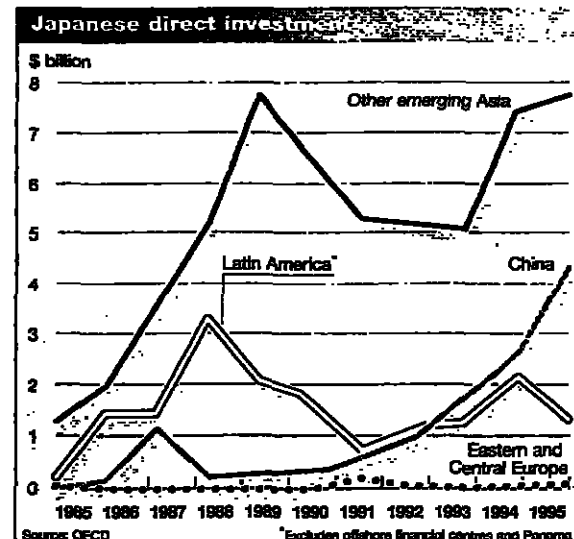
Other manufacturers are also expanding: NEC recently announced an additional £200m investment to expand and upgrade its Scottish semiconductor plant. This will increase production by 50 per cent by the end of next year, as well as introduce more sophisticated technology.

As one British investment promotion official points out, the UK cannot expect many more massive first-time Japanese investments, because all the large Japanese companies already have operations in the UK. The main activity now is ongoing reinvestment by the big names, and new investments by smaller companies. Last year, the average Japanese investment created 54 jobs.

The Japanese presence in the UK is now firmly established, but what keeps the flow of new money coming? A well-qualified, flexible labour force is one attraction often mentioned, but equally important is the language factor. English is the first foreign language for most Japanese people: finding managers capable of dealing



You can with a Nissan: the company announced in January that it would make a third model at its Sunderland plant, creating 800 new UK jobs



COMPONENTS PRODUCERS • by Richard Wolffe

## The supplier moves next door

US and Japanese car parts makers are locating close to their clients' British sites

The headlines may be dominated by the larger inward investments made by international car makers but the sheer number of smaller projects by their supplier companies has become hard to ignore over the past 12 months.

Much of this investment is the result of the relentless trend among car makers to rationalise the number of their suppliers – at the same time as encouraging the favoured few to become global players.

For the survivors, being close to the customer has become of paramount impor-

tance. By following the larger investors, smaller suppliers can cement a relationship around providing a better service – from product design to just-in-time deliveries.

At the heart of the UK car industry, the West Midlands region has profited greatly from the growing investment by parts suppliers. But the trigger remains the huge projects by customers in the region such as Jaguar and BMW.

Jaguar, owned by Ford, is investing £400m in building its new X200 saloon in Birmingham, while BMW is spending a further £400m on an engine plant nearby. BMW is further committed to a £3.5bn project to develop its "baby" Land Rover in Solihull.

"There has been considerable interest around Rover

and Jaguar in the past couple of years, acting as a catalyst for a lot of these supplier companies to invest in their own right," says Mr Robert Haymon-Collins, director of regional development at the West Midlands Development Agency.

"There is a ripple effect among the key suppliers, which want to move in their suppliers as well. These suppliers in turn look for other markets in the UK and continental Europe, so that from the initial investment you get this snowball."

Orbital of the US, a Missouri-based producer of sealants, is a good example of this. Work with Ford in the US gave the supplier the vital link with Jaguar, which led to a £2.5m investment in the company's first European plant in Birmingham last month. Backed by a gov-

ernment grant of £225,000, Orbital expects to create 200 jobs over the next five years, as the company works on the new X200 saloon.

"Our principal US customers – Ford, GM and Chrysler – have all expressed an interest in their key suppliers to become global and we have taken that on board," says Mr Ray McCuskey, Orbital's UK manager.

"When we came to review what we were doing in Europe, it was clear we could not serve customers from the US. So we looked at different facilities in France and Spain, but Birmingham gave us the flexibility of location that we needed. The fact that we are near Jaguar is most convenient because it gives it access to us at the drop of a hat. But this also puts us close to Rover and other manufacturers."

Other US automotive suppliers have chosen to locate in the UK on the basis of production costs, more than the location. Hillsdale Tool, part of the Eagle-Picher group, wanted to establish a European headquarters for its engine damper production.

With customers all over Europe – including Ford, Mercedes-Benz and Rover – Hillsdale looked at locations across mainland Europe. The UK proved so competitive that the UK move was combined with the acquisition of CR Elastomers of Germany, a supplier of engine dampers to Fiat. Hillsdale is now transferring the plant and machinery from Germany to its new base in Tamworth, Staffordshire.

Over the next four years, Hillsdale is investing £7m in the UK and creating 200 jobs, as well as sourcing £3m of

components locally. The plant moved into production at the start of this month.

"We chose the UK because of the competitive edge that we have in the UK," says Mr Tony Parr, managing director.

"Our labour costs are a lot lower than they are in Europe, and so are our raw material costs. We may be struggling at the moment with the strength of the pound, but we are very confident and innovative in the UK as far as our workforce is concerned."

The process of closer contact between suppliers has been taken a step further down the supply chain by TRW Steering Systems, part of the US automotive group. With a long-established base in Resolven, Neath, TRW has successfully encouraged its own suppliers to launch new operations alongside its plant on Wales's first automotive supplier park.

TRW says that eight suppliers are looking to move to the park, including a newly-created joint venture between TRW and Toyoda Machine Works of Japan. The £10.7m joint venture manufactures pumps for power steering systems, and will create 200 jobs in the next three years.

"We wanted to have our suppliers right next door," says Ms Alison Evans, financial director of TRW at Resolven. "So that when we design a product, they can be involved at an early stage in case there are any quality issues."

"It also means we won't have so much inventory. Above all, it helps because we are a first-tier supplier and some of our suppliers do not get the interface with the customers that we do."

PROFILE Komatsu

## Rising sterling, falling margins

The response of one Japanese company to the strength of the pound

Mr Keith Tipping, managing director of the UK operations of Komatsu, the large Japanese construction machinery maker, chooses his words carefully when asked to discuss the recent surge in the value of sterling. It has, he says, been making his life "more difficult".

Komatsu is the world's second biggest maker of construction machines such as excavators, after Caterpillar of the US. It set up its UK factory in Birtley, Tyne and Wear, in 1988 as part of a project to make its European sales operations virtually independent of non-European plants.

Nowadays, Komatsu's European sales total some 3,000 machines a year, virtually all of which are made in Europe. Birtley this year is expected to make around 2,000 wheeled and tracked excavators, worth some £120m at distributor prices, and the yearly figure is planned to rise to 3,000 by 2000. This is part of the company's programme to increase the whole of its European sales and production by 50 per cent by the turn of the century.

Short term considerations, such as the strength of the pound, might act as a temporary deterrent to Japanese investment, but there is no sign of the flow drying up.

Komatsu also has large production sites in Hanover in Germany and near Venice in Italy. The breadth of its European manufacturing activities reduces the impact of fluctuations in a single currency such as sterling.

Even so, Mr Tipping is being forced to look more to overseas components suppliers as a way of balancing out the effects of the higher pound. By increasing component imports, which currently account for about 65 per cent of all Komatsu's parts purchases for its UK plant, and which become cheaper as the pound rises, the company can cut its overall purchasing bill.

Komatsu is particularly looking to step up component purchases from eastern Europe – where companies can take advantage of low labour costs.

At present, Birtley accounts for virtually nothing of Komatsu's total purchases of east European parts for west European plants. The company's purchasing bill from eastern Europe is projected to rise four or fivefold by the end of the century.

Komatsu's UK production target for 1997 is a steep climb from last year's total of 1,500. If it meets it it will set a new record for Birtley.

Peter Marsh

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PROFILE LG Electronics

## Creating Wales's silicon valley

The impact of the South Korean group's £1.7bn Newport project will be huge

A milestone in Europe's biggest inward investment project will be reached this October when LG Electronics, part of the LG Group of South Korea, opens the first phase of a massive construction project in Newport in south Wales.

The display systems coming off the production line for use with personal computers will be the first products of a £1.7bn project agreed last year that should eventually create 6,100 jobs. A 250-acre site to the west of Newport will require 14,000 tonnes of steel and 61,000 cu metres of concrete in establishing a network of factories for LG Electronics and its sister company LG Semicon, one of the world's biggest microchip companies and another part of the LG Group.

The complex, the size of a small village, should be operating fully around 2002. It was announced last July after nine months of negotiations between LG and the Welsh Development Agency, the government organisation seeking to bring inward investment to Wales. At the time it was hailed as one of the most prestigious high-tech schemes in Europe over the past decade.

A year on, Mr C. B. Kim, managing director of the UK arm of LG Electronics, says both the display systems and semiconductor parts of the project are on schedule. Recruitment is already well under way, with LG planning to have about 1,000 employees in Wales by the end of the year, most of them people living in or around Newport. By December 1998, the figure should go up to 2,000.

"Everything is going reasonably well," says Mr Kim.

His big worry is keeping track of the costs of

construction and he also says that he is "concerned" about the sharp rise in sterling over the past year.

If the pound maintains its current levels, LG will almost certainly suffer from seeing its products from south Wales made significantly more expensive in export markets compared with what appeared likely when the project was agreed.

Of the total investment, \$450m is being spent on the LG Electronics part of the operation, which as well as making display monitors will make cathode ray tubes for use in these products and other components, while £1.3bn is going on the semiconductor production facility.

The display screen and tube plants will employ 4,400 people while the more capital intensive microchip unit will provide work for 1,700. LG estimates that about 15,000 people will be directly employed by companies supplying the two parts of the operation when it is fully operating.

The LG Electronics part of the project will start this year with display monitor production. Tubes and other essential components will be shipped from Korea. Next year, the scheme will slip into higher gear, with the colour tube plant on the site starting up and providing tubes for the display factory.

About the same time, two other units on the site, making components called deflection yokes and fly-back transformers which are required for the display products, will start up to make the complex more sufficient in making its own parts rather than requiring these to be bought in from outside.

By 2000, the plant should be making 2m display monitors a year, most of them destined for use with personal computers made by companies such as Compaq or Apple.

Output of TV tubes around that time is scheduled to be about 3.3m a year. Of these, 2m will be used on the site; another 1m

sent to other makers of TVs and computer displays. The remaining 300,000 are expected to be shipped to another LG factory already operating in north-east England for use in TV set production.

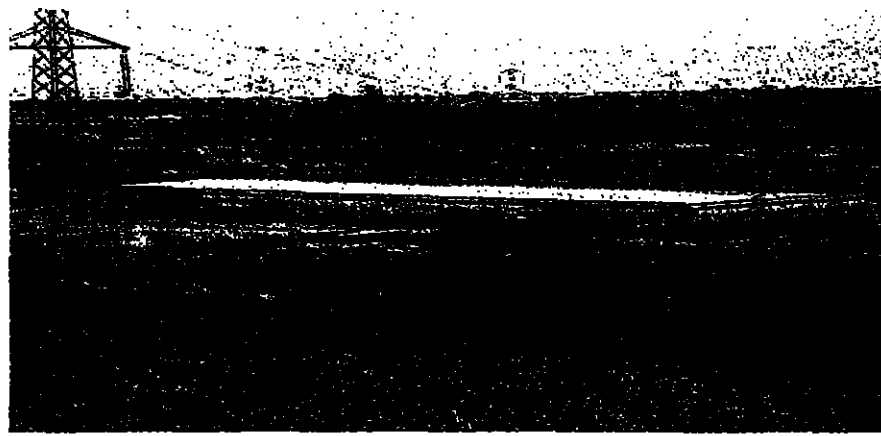
Annual sales from the LG Electronics part of the operation should reach \$410m by 2000, and about \$450m two years later. About 70 per cent of the output is expected to be exported. The semiconductor part of the complex will start up later than the LG Electronics operation. Foundations for the microchip production plant should be laid this year, ready for manufacturing to start mainly of memory chips by late 1998.

For both parts of the programme, finding the right employees is a big part of the overall operation. Of the 1,000 or so LG Electronics' employees who should be in place by the end of this year, 180 will be high-grade production supervisors and engineers who will be required to spend special training of between four and 19 weeks in Japan. The recruitment programme for other employees will move into top gear in September and October, when the company expects to be taking on 100 new people a week.

As for LG Semicon, 50-60 graduates are due to start work at the company this autumn. After initial training in Wales they will go to Korea for two separate three month training periods at existing LG microchip factories.

When it is in full production, it is envisaged that of the total Semicon staff in Wales, a third will have university degrees. LG is also setting up a special internship programme for graduates. Under it they will be able to gain work experience in both Wales and Korea in the semiconductor field, and when they finish their studies get the chance of a full time job with LG.

Peter Marsh



The LG Newport site: the whole complex should be in operation by 2002



A Samsung production line in Korea: the company started a UK investment wave in 1995 when it announced plans for a \$450m plant in the north-east of England

THE VIEW FROM KOREA • by Jack Burton

## The storm before the calm

There has been a surge in Korean investment over the past two years. Can it last?

When Samsung Electronics announced in the autumn of 1995 that it was building a \$450m consumer electronics plant in north-east England, it signalled a sudden wave of South Korean investment into the UK.

Within the next year, Samsung's Korean rivals followed suit as they claimed different regions of the UK as their own. The LG Group announced the biggest ever inward investment project in the UK with a huge semiconductor facility to be built in south Wales (see profile left). Hyundai Electronics selected Scotland's Silicon Glen for its main semiconductor plant in Europe. Meanwhile, Daewoo Electronics was already operating a VCR plant in Northern Ireland.

These big electronics projects have been mainly responsible for making the UK the leading European Union investment site for Korean companies. Korean investment in the UK is estimated at \$6.75bn, which accounts for up to 65 per cent of its total investment in the EU.

The 24 manufacturing projects established by Korean companies in the UK are heavily concentrated on the electronics industry, from audio components to advanced computer chips. Others include the manufacture of fork-lift trucks by Hella in Wales and a joint venture whisky business involving Jinro in Scotland. But the surge of Korean investment into the UK may be ending as quickly as it began. "More large-scale projects are unlikely over the next several years, although we expect a steady stream of

smaller businesses and sub-contractors," says one UK official in Seoul. "The next big wave will probably not occur until after the turn of the century when Korean car makers might be interested in establishing plants in western Europe."

Having secured a firm foothold in the UK to avoid possible EU trade barriers, Korean electronics companies see little need to expand their facilities there for the moment. "We went into the UK as a means to tap into the EU market and any future investments will depend on the growth of the European market," says Mr Lee Chang-suk, a managing director for global strategy at the LG Group.

Moreover, Korean companies have grown cautious about overseas investments as an economic downturn at home and fierce competition in foreign markets are straining their financial resources.

Korean semiconductor companies are suffering

from a global supply glut that has led to sharp falls in prices for computer chips and a resulting drop in earnings. Samsung has postponed plans to add a chip plant to its consumer electronics factory in Weymouth.

There is little immediate prospect that Korea's other main industries will follow the electronics companies in the UK.

Although Korean electronics companies have been aggressive in entering the advanced industrial nations of the EU and North America, other Korean industries prefer emerging markets.

Korea's steel and petrochemical industries have concentrated on Asia, which attracts three-quarters of total overseas Korean investments. Korean shipbuilders are staying at home.

Korean car makers have matched the electronics companies in overseas expansion, but they are establishing plants in developing countries because of their market growth potential and

cheap labour costs.

Although Korean car companies are flocking to Europe, they see eastern Europe as their main manufacturing base for the region because of its competitive wage levels and the prospect that demand will grow quicker there than the saturated markets of western Europe.

The UK is also facing increased competition from other European countries in offers of generous investment incentives to Korean investors. Daewoo has decided that Poland and France will be its main European manufacturing centres because of state support from their governments. But this has not affected its plans to expand its VCR plant in Northern Ireland over the next few years.

However, other Korean industrial groups believe that the UK has advantages that will ensure that it remains their favourite investment site in the EU. "It is easy to secure very

productive workers, while London's position as Europe's most important financial centre is also an important consideration," says LG's Mr Lee.

Equally crucial is the English language, which is widely taught in Korea unlike other European languages. This makes it easier for Korean managers to communicate with local workers in the UK.

Korean executives expect few changes under the new Labour government that would discourage investment in the UK. Most have accepted the EU social chapter being applied in the UK. But there are concerns about Britain's schedule in joining the European monetary union.

"The UK is our main production base in the EU, so we would prefer EMU membership as soon as possible. But we realise that this is a long negotiating process and we are confident that the UK will join eventually," says Mr Lee.

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## 6 INVESTMENT INTO THE UK

PROFILE Ford Motor



Then and now: right, a Model T, the car Ford started making at Trafford Park Manchester in 1911; left, modern-day production at the company's Halewood plant



## Stalling maybe, stopping no

The company's 86 years in the UK have not been without controversy but few doubt its commitment

The threatened closure earlier this year of Ford's car factory at Halewood raised questions about the company's future in the UK. Coming at a time of continuing financial losses by the corporation's UK subsidiary, together with deep-seated concern throughout the motor industry about global over-capacity, Halewood's outlook appeared grim.

To a group that sold 6.65m vehicles last year, a factory that produces 187,000 is relatively small fry. In the end, of course, Ford was persuaded to keep the factory active into the next century with a £15m grant.

It is not unusual for Ford to play tough when government and regional development hand-outs are at stake, but there was never much doubt about the company's wider commitment to the UK. It employs 30,000 people there, and few foreign companies have invested as much and as consistently in the country. The money earmarked for the new Halewood model alone is expected to exceed £100m.

It is part of a Ford commitment that stems back to the early days of motoring. It already had a production presence in this country by 1911, when it opened a Model T assembly factory at Trafford Park, Manchester.

But a much more ambitious development was to follow just over a decade later when Ford bought 119 hectares of Thames marshland in Essex - for £168,000. It then invested £5m to create a replica of its famous integrated factory at Rouge River, Michigan.

It was an act of considerable faith. Dagenham opened in 1931 in the teeth of recession. Business was so bad that in the final three months of that year Ford sold only five passenger cars. Its future could only get better.

After the end of the second world war, the company began a £75m expansion and modernisation programme at Dagenham. As soon as that was completed, insatiable demand for new cars prompted Ford to make a further £70m commitment in new facilities. These included a move away from the Dagenham site to a new £30m Halewood factory on Merseyside, opened in 1963. That was followed four years later by a £10.5m R&D centre at Dunton, Essex.

This consistency in spending, combined with the general decline

in fortunes at other domestic producers such as British Leyland and Rover, became the foundation stones of Ford's current pre-eminence in the UK car and light commercial vehicle markets.

Mr Ian McAllister, chairman and managing director of Ford in the UK, says there will be no let-up in the investment programme. "We now have a total of \$1bn (£610m) earmarked for Britain, for projects such as the new family of diesel engines at Dagenham, the Zetec SE engine at Bridgend and the sourcing of Jaguar panels from the Halewood press shop," he says.

In addition to the Escort-based multi-activity vehicle at Halewood, Dagenham has been confirmed as the lead site for the new generation Fiesta, and the next Transit van will be produced at Southampton. Like the current one. Yet more money is going into component plants in Swansea and Belfast and into expansion at the R&D centre.

Equally significantly, Ford is investing substantial sums in the two struggling specialist vehicle makers it bought in the late 1980s, Jaguar and Aston Martin Lagonda. It is unlikely that either would have survived outside a big-volume car manufacturing group such as Ford.

For little Aston Martin, Ford ownership meant a new car (the DB7) and a new factory at Bloxham.

Oxfordshire. It is now selling at record levels. It is also, according to the company, making a profit - rare in Aston Martin's long history.

Jaguar, which Ford bought for an astonishing \$2.5bn, proved a bigger problem. It had a good image, but lousy manufacturing facilities, poor quality and no solid new-model programme.

Mr Nick Schoele, Jaguar's chairman, recalls: "The patience of Ford during that period was incredible. Ford never once moved on the commitment for the new XJ6 and XJ60 engine and the XJ60 itself. We were pouring money into the company and we were losing it out of the far end at a rate of knots."

Now Ford is investing further to produce a smaller additional Jaguar - code-named X200 - to take on the BMW 5-series and Mercedes-Benz E-class, together with a new car assembly plant at Castle Bromwich in which to make it.

Despite the growth in Vauxhall (General Motors) sales since the early 1980s and the subsequent arrival of Japanese transplants, Ford manages to retain a clear edge in the UK new car market. It has been the leading retailer for the past 21 years, during which time its investments in the country have totalled more than \$5.25bn.

Richard Feast

THE VIEW FROM AMERICA • by Richard Waters

## US says 'yes, prime minister'

Americans seem to have as much confidence in Blair as they had in Thatcher

The wave of money that has flowed across the Atlantic during the 1990s says it all. From the US, the UK still looks like the best place to do business in Europe - a picture that has, if anything, been reinforced by the recent shifts in the continent's economic and political landscape.

American companies took over from the Japanese at the beginning of the decade as the world's biggest providers of foreign direct investment.

The UK has been a big beneficiary of this. During 1996, half of all US direct investment abroad went to Western Europe, of that, 40 per cent went to the UK, or some \$18bn, according to the Bureau of Economic Analysis.

Also, at \$143bn, the historic cost of US investment in Britain remains ahead of that in Germany, France and the Netherlands combined.

The pattern of earlier investment provides one clue as to why the UK remains such a magnet for American money. Most new direct investment comes in the form of additions to - or modernisations of - existing facilities, rather than in the form of "green field" developments.

Ford Motor, for instance, has continued to invest in the UK despite a decision earlier this year to renege on its Halewood plant.

As much of 40 per cent of Ford's new investment in Europe continues to end up in the UK as the company extends its existing plants, says Mr Ian McAllister, chairman of UK operations. Referring to one such investment, to build a new engine for cars assembled around the world, he adds: "It's easier to expand the Bridge-end engine plant than to

build a brand new facility somewhere else."

Mr Deryck Maughan, chairman of Salomon Brothers, offers a similar view. Like other US investment banks, Salomon has based its European headquarters in London and has good reason not to shift the base of its operations. "There is real embedded value - we are not all about to close up shop and rebuild elsewhere," he says.

It is this existing base of US manufacturing and service companies that has fuelled the most recent wave of American investment. In many industries, Europe's single market programme has made it far easier to serve the entire continent from a single base, and that has led to a greater concentration of resources as companies search for economies of scale.

This, of course, is only part of the story. The structural reforms pushed through by Margaret Thatcher, particularly in the labour market, are widely seen in the US as the foundation for the UK's success.

"It's an extremely attractive place to invest," says Mr McAllister. "Labour is very, very flexible, and is educated." Ford has good relations with its unions, and has seen big productivity improvements in recent years, he adds.

The UK is also benefiting from two more immediate considerations that have played prominently in the American consciousness. One has been its strong economic revival, in contrast to neighbours like France.

On his first to New York since becoming prime minister, Mr Tony Blair was beset with questions during a meeting with US financiers and businessmen about the political and economic upheaval in France, according to one person who was present. Britain's own stability, even after a landslide election victory, was taken as read: few doubt the "New" Labour claims.

Eventually, though, there is little doubt among American executives that Britain will have to become a fully-paid up member of a European economic union. That belief is felt particularly keenly at a time when the strength of sterling has eaten into the profits of companies that use the country as a base to export across the channel.

"We would certainly like the UK to move into Ecu at some point in time," says Mr McAllister at Ford. "A stable currency makes planning a darn site easier. Every businessman would go for that."

"It's absolutely astonishing how positive the [US] press has been [about Blair]," says Mr Geoff Robinson, deputy director of the Invest in Britain Bureau, a branch of the Department of Trade and Industry.

"If anything, the change of government has been seen as positive by US businessmen," he adds. "though, of course, it's still a honeymoon period."

The other consideration has been a changing perception of Britain's place in Europe, thanks to the arrival of Mr Blair. This is always a strong concern for US companies which see the country as their launching pad for the European market.

The new prime minister's approach so far has hit just the right note for businessmen who want to see the UK close to the heart of Europe, but do not want to see it sucked into a catastrophically premature economic and monetary union.

"People are less concerned about the UK detaching itself from the rest of Europe," says Mr Maughan at Salomon Brothers. "The new government has extended a more constructive policy on Europe, and doesn't have to deal with a disident faction." Other EU countries, meanwhile, are being pushed by necessity to consider reforms that would make them more like the UK, further reducing the old rifts, he adds.

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THE VIEW FROM GERMANY • by Graham Bowley

## There's no place like overseas

Crisis conditions at home are making German industrialists look abroad

Germany, in the last years of the 20th century, is experiencing a crisis of confidence. Unemployment, at more than 11 per cent of the workforce, is at the highest levels since the end of the second world war. There are interminable wranglings between the political parties, unions and industry leaders about

what should be done to address the country's problems. Bitter are the disputes about the proposed reform of the tax system and the dismantling of cosy working practices and costly social legislation.

One especially hard blow to the nation's morale has been the growing wave of investment by German companies in other countries. While politicians have squabbled over possible reform at home, several of Germany's biggest companies have opted to shift sizeable parts of their produc-

tion to faster-growing, less restrictive and cheaper areas abroad.

Daimler-Benz and BMW, two of the biggest car makers, have set up new factories in the American south; Continental, the tyre manufacturer, is in the process of shifting more of its production to factories in eastern and southern Europe; VW, the car maker, also has production in the cheaper east.

This pattern - and these companies' successes in foreign markets - helps to explain the spectacular rise of the German stock market

to record highs at a time when domestic conditions are so depressed. The country's leading industrialists - who enjoy a high-profile in the German press - are every week criticised for exporting jobs abroad when their profits are so healthy; they usually answer that more jobs abroad secure safer jobs for employees at home.

That Britain is, after the US and Austria, the biggest recipient of German investment, is a measure of the extent to which German companies value the business environment in the UK. In the view of many Germans, Britain - and even more so the US - has achieved many of the changes in terms of liberalisation of markets and of working practices that Germany now must necessarily embark upon.

"While Germany is fighting with the concept of Standort Deutschland [the idea that Germany is a competitive place to do business], for many German businesses the UK is already a Standort UK," says one British banker who advises German companies investing in the UK.

According to the German economics ministry, direct investment abroad by German companies was DM38.5bn last year, down from DM42.1bn in 1995. Investment in the UK totalled DM4.72bn in 1996, while investment in the US was DM3.77bn. At the same time, foreign direct investment in Germany by companies from other countries dropped last year to a record low of DM1.14bn, from DM18.23bn in 1995. According to figures published this month by the Organisation for Economic Co-operation and Development, the industrialised countries' think-tank, Germany recorded disinvestment last year after attracting inflows of \$12bn in 1995.

The German companies that have invested in the UK include BMW, the car maker that bought Rover for £900m in 1994, and Siemens, the electronics and electrical group, which has built a large semiconductor plant in the north-east of England. BASF, the chemicals group, spent DM2.1bn in 1995 to buy the prescription drugs arm of Boots, the UK retailer. In the finance sector, Dresdner Bank, one of Germany's biggest, paid DM2bn for Kleinwort Benson, the UK invest-

ment bank. "We are not seeing any let up in interest coming through from Germany with regards to expansion of existing inward investment and new investment," says Mr Andrew Kirby, who is in charge of a new inward investment unit set up by Barclays, the UK bank, in London.

Barclays has set up a dedicated team to provide UK banking services to foreign companies. "Inward investment has become so important to the UK economy," says Mr Kirby.

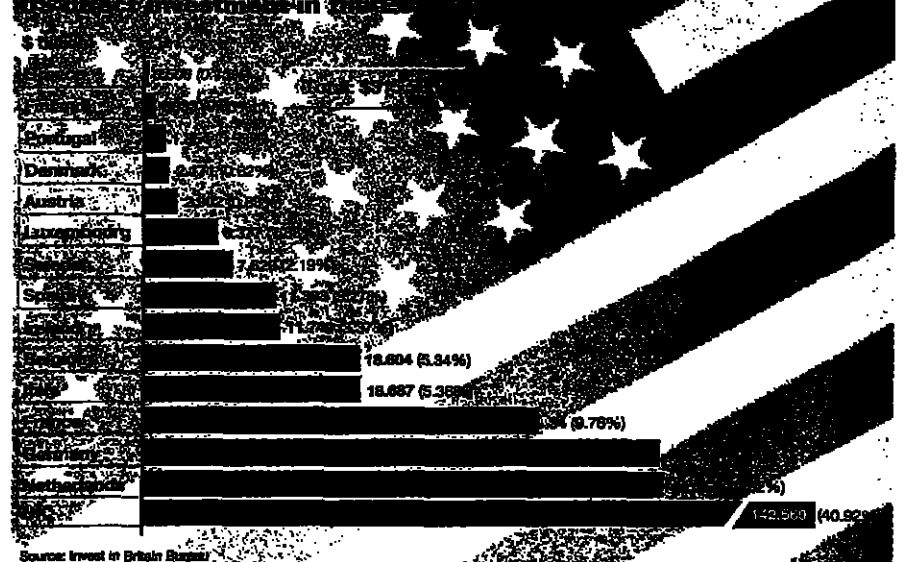
According to the companies investing in Britain, the UK's main attractions include low-cost flexible labour, good international communications, a large consumer market and high-quality financial and legal services. They are also attracted by the UK's position inside the European Union - as compared with some other low-cost locations in Asia. Mr Kirby says the UK also offers attractive corporation tax rates, while the English language also plays a part. "There are fewer barriers to entry in the UK," he says.

A survey at the end of last year by the German chambers of commerce underlined the extent to which Germany's relatively high labour costs are a burden for German industry and why the costs are therefore a strong driving force behind investment abroad.

The survey found that 28 per cent of west German industrial companies planned to shift production abroad in the next three years. Companies planned to create at least 300,000 new jobs abroad by the end of 1999 - in large part because labour costs at home were too high. According to some measure, labour costs in the car industry are as much as twice as high in Germany than in the UK.

One present threat to investment into the UK might be the strong and sudden appreciation of the pound on the foreign exchanges. But, maintains Mr Kirby, even with the rise of the pound against the D-Mark, the cost advantage is still large enough to attract investors to the UK.

"We are aware of acclimations by major German companies. So despite the strength of the pound there does not seem to be any let-up," agrees one banker.



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COMMERCIAL PROPERTY • by Anne Steadman

## Site salesmen stress service

The regions now provide extras to convince foreign companies to move their way

Not a week goes by, it seems, without news of another big overseas company deciding to set up shop in the UK. Behind those headlines is a plethora of organisations beavering away to persuade an incoming company of the merits of their individual areas in terms of communications, workforce skills, industrial and commercial sites and government grants.

Besides the three main national agencies: the Welsh development agency, Locate in Scotland, and the Northern Ireland development board, there are some 13 main regional agencies and a range of local authority departments, along with partnerships between the private sector and local authorities.

The government agency English Partnerships has become a leading force since opening in April 1994. Working with the Department of Trade and Industry, the Invest in Britain Bureau, and other bodies, it has enjoyed considerable success in its role of bringing together and co-ordinating key participants. As recent examples, it cites Samsung, Seimens, Sony and Ford-Jaguar, whose new projects alone account for more than £20m of investment – and 7,000 jobs.

English Partnerships' complementary role is to facilitate the regeneration of derelict and damaged areas. Typical of this side of its operation is its activity in North Yorkshire, where it has just acquired 33 acres at the Elmet Enterprise Park, some six miles north east of the A1/M62 junction between Leeds and Selby.

Working with North Yorkshire County Council and Selby District Council, English Partnerships is to spend almost £4m in opening the site, which will benefit further from the A1/M1 link



Building bridges... Newcastle-upon-Tyne – the north-east has been particularly successful in attracting overseas investors

now under construction.

North Yorkshire county council economic development officer Mr Jonathan French says that the infrastructure work is expected to take a year to 15 months, after which several advance units will be built. Mr French adds that North Yorkshire is continually trying to identify other suitable sites and guide them through the planning system.

The north-east has been conspicuously successful in attracting overseas investors. The latest recruit is the US Textron subsidiary Avco Trust. The financial services presence is likely to be prominent at big overseas trade exhibitions.

Attendance at international trade fairs targeting individual industrial sectors appears to be the current favourite marketing strategy. If Sunderland is to be found at automotive events, Lincolnshire County Council is likely to be at international food industry get-togethers.

Ms Jenny Gammon, Lincolnshire's marketing and development manager, aims to raise the county's profile – and also to be able to provide the right sites and premises. In Lincolnshire's favour, she says, are the low rents and land costs. And, of course, there is the lifestyle.

joint venture between Lucas and Sumitomo, has doubled in size.

The council, adds Mr Hurst, is always looking ahead, ensuring that more good sites will be available in the two or three years after the investor has made its initial commitment. It also provides ready-built space. It has 135,000 sq ft of speculative space available in the technology park adjoining the Doxford Business Park.

With its flagship investor Nissan now joined by a host of automotive companies, Sunderland targets the car industry hard. The council's presence is likely to be prominent at big overseas trade exhibitions.

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Ms Gammon is also a regular visitor to the annual property exhibition MIPIM, in Cannes. "To make sure the development industry is also aware of what we have to offer".

But if regions such as Lincolnshire and North Yorkshire have to work hard to sell themselves, there is a problem of a different nature in the Thames Valley. The area is a magnet for the computer industry, attracted by the closeness of Heathrow, central London and the reputation of Oxford University. In Reading, Microsoft is currently building a UK headquarters of 500,000 sq ft and Oracle has just finished 300,000 sq ft, says Mr Peter Norris, chief executive of Thames Valley Economic Partnership – an alliance between the private and public sectors in Berkshire, Buckinghamshire and Oxfordshire.

More recently, Computer Associates submitted a planning application for a new 250,000 sq ft European headquarters at the Appleton Park/Ditton Park site adjoining the M4 at Datchet, Berkshire. Mr Norris says that the company had been looking for a site in the area for some time, without success. His organisation was able to help by "exerting a positive influence" on both the local planners and the

Ministry of Defence with which Computer Associates is in negotiation to buy part of the site.

The Thames Valley's "Silicon Valley" tag seems to be justified. Mr Norris notes that some 150 companies from its Californian namesake are represented in the area. More would like to come, but there is the perception that they will be unable to find sites. Mr Norris admits that there is not room for them all; some might have to look to towns and cities elsewhere in the south-east such as Guildford or Southampton.

There is no doubt that the wooing of inward investors – and the provision of sites for them in the UK – has become much more sophisticated in recent years. Some observers, though, feel that the whole process is costing too much. Several of the many agencies involved are exceptionally efficient, but there are still those that have yet to grasp the need for instant answers – and instant solutions – to investors' problems. There is, as well, often unnecessary duplication of resources and effort. The competition between Forth Valley Enterprise and Lanarkshire development agency to bring Nokia to Scotland is cited as an example by one Scottish chartered surveyor.

PROFILE Pharmaceuticals sector

## A favourite tonic for foreign companies

The growing strength of the industry is one of the UK's great success stories

Pharmaceuticals is one of the UK's strongest industries. It directly employs between 70,000 and 80,000 people, and three or four times that indirectly.

Much of that success is the result of a strong domestic industry led by Glaxo Wellcome, SmithKline Beecham and Zeneca. But the UK is also the most popular choice for foreign drugs and healthcare companies, and is often used as a base for the whole of Europe.

Foreign investors involved in the UK range from drugs companies such as Pfizer of the US to more specialised healthcare businesses such as Quintiles, the American contract research organisation (CRO).

Government agencies and companies all believe that inward investment in healthcare is at a high level. However, finding precise statistics is difficult. There are numbers on investment as a whole, occasionally subdivided by industry.

However, these rarely distinguish between inward investment and domestic investment. In regions such as Scotland, "inward investment" might include money from English companies. Furthermore, the figures do not clearly differentiate between investment that is buying businesses, expanding businesses or building green field start-ups.

The complexity of the problem is illustrated by the experience of Astra, the fast-growing Swedish drugs company. In June 1995, Astra paid £202m for the UK and US research and development operations of UK drug company Fisons.

Last February, the company launched a £63m programme to build new laboratories at the Loughborough site. It has also built a research unit in Edinburgh and a packaging manufacturing site in Corby. The number of people it employs in the UK has risen from 1,800 to 1,750 in the past 12 months.

The scale of Astra's investment is not unusual. The US company Pfizer invested £280m between 1991 and 1996 at its site in Sandwich, Kent. Over that period, staff numbers

increased from 2,000 to 3,400.

Nor is the cash limited to pharmaceuticals. Two US companies that run medical trials for drugs companies have invested in Scotland. Quintiles paid £12m for an Edinburgh site in 1995 and, according to medical investment lobbyists in London Medicine, is spending another £30m in the UK. As well, Tennessee-based Clintrials announced in May it would create 240 jobs in Glasgow.

The list goes on, with investments in the past 18 months alone coming from US companies Merck, Genzyme and Inva, as well as US-Swedish company Pharmacia & Upjohn (which has established its global headquarters in Windsor) and France's Rhône-Poulenc. Japanese companies Eisai, Takeda and Yamanouchi have all either initiated investment or said they would expand their UK operations.

Will this continue? The signs are good. London is the headquarters of the European Medicines Evaluation Agency, which co-ordinates pan-European drug approval and which should see its powers increased over the next few years. The UK has a strong scientific base, and although most pharmaceutical companies locate in the south east, there are also concentrations in the north west and in Scotland.

The UK drug price regulations, which reward investment with higher profits to companies, is unlikely to be changed under the new Labour government. And finally, the UK has the biggest biotechnology sector in Europe, a demonstration that the business of drug discovery is not short of entrepreneurial energy.

Daniel Green



Tracy the transgenic sheep: biotechnology adds to Britain's appeal

PROFILE Machine tools sector

## Pounding away nicely

To a large extent, FDI has helped keep the British machine tool industry alive

Of Britain's total machine tool output – expected to be some £550m this year – more than half will come from companies whose headquarters are outside the UK.

Although the sums injected into Britain in investment in machine tool production are not large by the standards of other industries, the cash represents a steady drip-feed of financing that has helped to maintain a UK industry, many of whose main domestically owned companies have either disappeared or suffered difficult times.

One of the biggest inward investors has been

Yamazaki Mazak, one of the Japan's big three machine tool makers, which set up a plant in Worcester a decade ago, helped by a £5.2m government grant. The initial investment of £350m has been followed by extra funds for expansion, bringing total output to an estimated £80m a year.

Cincinnati Milacron, the large US machine tool company, employs 500 in its Birmingham factory, where it has in the past year invested £3m in product development and new manufacturing systems to bring out a new series of "no frills" machine tools aimed at overseas markets. Output from the plant this year is likely to be more than £100m, above last year's figure of about £90m.

Helmer, a privately owned German machine tool company, has a manufacturing base in Redditch in the Midlands

and is studying the possibility of expanding after a successful project to recruit local people and train them in new skills.

Much of the investment in machine tool production in the UK, put at around £40m a year, is met from the companies' own internal cash generation, with the British ends of the businesses having a fair amount of autonomy from their head offices outside the country.

A case in point is the US-owned Bridgeport, which runs its European manufacturing operations from Leicester. Its own series of machine tool products are designed specifically for requirements in Europe and also for the fast growing markets in south east Asia.

While much of the UK industry enjoyed an upswing from 1992 onwards, helped by the boost the

weak pound gave to exporters, sales activity has been held back by sterling's 18 per cent appreciation against other important currencies. A company particularly hit has been Matsumura, the Japanese machine tool maker that set up its first UK plant last August, just when sterling was rising rapidly. It admits that margins are suffering as a result.

Mr Geoff Noon, head of statistics at the Machine Tool Technologies Association, the UK trade body for the industry, is forecasting weaker growth over the next year but says the UK remains an "attractive place" for machine tool investment.

This is partly due to such factors as fairly low wage costs and relatively few restrictions on working hours and shift patterns.

Peter Marsh



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## 8 INVESTMENT INTO THE UK

The privatisation and deregulation programme begun by Margaret Thatcher has created more opportunities for foreign investors. How the American commitment to customer service is making its mark on parts of two former nationalised industries

RAILWAYS • by Charles Batchelor

## Refining the iron horse

The influence of a US railroad is helping to revive the British freight train business

Wisconsin Central Transportation, the US railroad that has acquired most of British Rail's freight operations, is working on plans to set up a "one-stop" customer service centre to deal with queries and complaints.

Equipped with "smart" information technology systems to answer customer calls, the centre is intended to replace the 15 different points of commercial contact that BR maintained in the past.

This emphasis on customer service is one of the most telling signs of the change that is sweeping the rail freight industry and of the application of "imported" ideas to a traditional business sector.

BR operated an efficient and profitable freight service for a relatively small number of bulk customers but left many smaller companies with bitter memories of poor service and unfulfilled expectations.

Established in 1987 by Mr Ed Burkhardt, a life-long railman, Wisconsin took

over stretches of under-used freight railway track around the Great Lakes when the US railroad network was deregulated. It has since acquired routes in Canada and, in 1993, the New Zealand rail network.

One of Wisconsin's priorities after acquiring BR's Trainload Freight business - since renamed English Welsh & Scottish Railway - in February 1996 has been to reduce its dependence on bulk freight. It is developing its single wagon and part-train business, which in the US accounts for 80 per cent of its revenues.

In the run-up to privatisation BR freight managers launched an "Enterprise" service, designed to revive the single wagon business from which BR had withdrawn in the early 1990s.

Although the idea came from BR managers, Mr Ian Braybrook, EWS managing director, is convinced its continued expansion, across more of the rail network and with faster trains, has been because of Wisconsin's commitment to the project.

Trains running at up to 75mph, instead of the previous maximum of 60mph, are part of EWS managers' attempt to fit rail into the just-in-time schedules of manufacturers, distributors and retailers.

Safeway this month became the first retailer to test out overnight shipments between the Midlands and Scotland.

But fitting rail into tight delivery schedules requires better communications between train drivers and headquarters. EWS is now drawing up plans for an in-cab radio system.

Railtrack is working on industry-wide radio links but EWS says it is prepared to go it alone if necessary. "American managers were amazed at how primitive our communications systems were," says Mr Braybrook.

In the US train drivers use radio to tell head office if they have been delayed and even to warn the sales department if a road haulier is sighted on a rail customer's premises.

As part of its attempts to provide a comprehensive service to its customers Wisconsin is backing the establishment of a UK wagon plant by the US manufacturer Thrall Car with a commitment to buy about 500 wagons a year. BR acquired no new wagons after 1981, which meant its customers had to either buy or lease their own. This was not only inconvenient but also meant customers had to commit funds to a very long-term asset.



Back on track: BR's freight business, renamed English Welsh & Scottish Railway, has recently won business from the supermarket chain Safeway

As well as acquiring new wagons EWS has ordered 250 new US-made diesel locomotives for its UK operation. Mr Burkhardt believes US manufacturers can provide cheaper, more reliable equipment because of their long production runs.

But the innovation flow has not been only one-way, reflecting the very different conditions of the UK rail market. In the US, railroads are primarily devoted to freight business, with relatively slow-moving trains transporting goods over vast distances.

In the UK, in contrast, the

railway's main function is moving passengers over frequently very busy stretches of track. Freight operators must fit into the passenger schedules or risk paying penalties if passengers are delayed.

One area where BR had developed considerable expertise, moving bulk shipments over short distances - between say a coal mine and a power station - was relatively unknown in the US. Wisconsin is now drawing on the experience of its British managers to develop this business on its American routes.

TELECOMMUNICATIONS • by Stefan Wagstyl

## Answering the call of competition

AT&T believes that the UK offers some of the best opportunities in Europe

While foreign-owned service companies have yet to have the same impact on the British economy as overseas manufacturing groups, their influence is growing rapidly.

The deregulation of basic services such as electricity, water and telecommunications means millions of consumers can already choose a foreign-owned supplier for their essential utilities. And millions more will be able to do the same in future.

One company that has capitalised on deregulation is AT&T, the US telecommunications group, which has in the past three years invested US\$500m in a UK telecommunications service business with an annual turnover of \$500m.

AT&T was already well known in the UK before the 1980s as a supplier of international telephone services and a manufacturer of telecommunications and computer equipment that had factories in Britain. But the company has changed direction in the past few years by selling off most of its global manufacturing interests to concentrate on telecommunications services. In the UK, a telecommunications business that employed just 50 or so people three years ago now has 2,750 staff and is growing at the rate of about 300 jobs a year. In June, the group moved its European headquarters from Brussels to London. It also has regional offices in Redditch, Manchester and Edinburgh.

"The UK has a very friendly climate for foreign investors," says Mr Merrill Tutton, who has spent the last three of his 31 years with AT&T as president of the UK operations. "The liberalisation of telecoms has created great opportunities for us. The UK leads the rest of Europe in liberalisation."

Mr Tutton says that since

levels of service in the British telecommunications market still fall short of customers' needs there are many opportunities for a newcomer to make its mark in the market. For example, a 24-hour-a-day, seven days a week service is not available for most British telephone users. "My view is that the market is under-served in comparison with the US. I would urge companies entering the British market to pay attention to service," says Mr Tutton.

Cultural differences play a part in differing service levels in different countries, but, says Mr Tutton, lack of customer satisfaction in the UK telecommunications market mainly reflects the relatively late arrival of deregulation and competition. In other sectors of British industry there are companies that put a high premium on service - obvious examples being Marks & Spencer, the high street retailer and Direct Line, the financial services company.

Mr Tutton argues that value-added telecommunications services are set to grow rapidly in the UK. Already the UK accounts for half of

Europe's call centres, he says, with companies moving from the Continent to the UK to take advantage of low labour costs and flexible employment contracts.

Mr Tutton says that it is important for companies that enter the UK market to spend a lot of time talking to customers. AT&T formalised this process by establishing a customers' advisory council for senior staff from AT&T and client companies.

The company has also established links with the telecommunications industry by joining the Parliamentary information technology committee, which fosters ties between business and politicians. "It works very well for us," says Mr Tutton.

Mr Tutton says it is also important to make a good impression in the wider community by sponsorship. But companies should focus their efforts on activities that have some relevance to employees and customers, he says. AT&T supports the Almeida Theatre in Islington, the Natural History Museum in Kensington and the European Youth Orchestra. "It's subtle but classy," he says.



Capital investment: as part of its attempt to raise its profile in Britain AT&T sponsors London's Natural History Museum

## Tests for money magnet

Continued from page 1


vestment by foreign companies in the UK, which are most unlikely to seek new pastures unless economic conditions change drastically.

However, the UK faces some serious challenges if it is to accommodate foreign companies' needs, particularly the requirement for skilled workers. Some investors have already been accused of poaching staff from existing companies, including other foreign-owned plants. For example, electronics companies in South Wales have complained that LG, which eventually plans to employ 6,100, has recruited some of their key employees.

The enlargement of the EU into eastern Europe could increase the competition among member countries to offer sites with low labour costs.

Labour's answer is to wean Britain away from its reliance on low labour costs as a competitive advantage and develop its reputation as a location for high-skill, high-pay operations such as design and development. The success of this strategy will depend crucially on the success of Labour's education policies.

Staff shortages are especially acute among software engineers and information technology managers. Companies welcome Labour's commitment to raising education and training standards - but recognise that it could be a long time before they feel the benefits of such policies.



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